

AUDITING PROCEDURES REPORT

Issued under P.A.2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of New Baltimore, Michigan	County Macomb
Audit Date June 30, 2004	Opinion Date December 27, 2004	Date Accountant Report Submitted to State: March 1, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised,
2. We are certified public accountants registered to practice in Michigan.

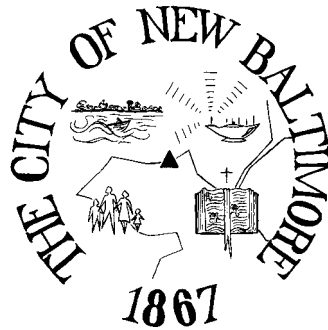
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (PA. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Rehmann Robson			
Street Address 5750 New King Street, Suite 100	City Troy	State MI	Zip 48098
<div>Accountant Signature Thomas Darling, CPA</div> 			



**CITY OF NEW BALTIMORE
MICHIGAN**

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED
JUNE 30, 2004**

CITY OF NEW BALTIMORE, MICHIGAN
Basic Financial Statements and Supplementary Information
For the Year Ended June 30, 2004

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

December 27, 2004

To the Honorable Mayor and City Council
City of New Baltimore, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of New Baltimore, Michigan**, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **City of New Baltimore, Michigan's** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of New Baltimore, Michigan**, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General and Local Street funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 4-E, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 34, 37 and 38, and GASB interpretation No. 6 as of July 1, 2003. This results in a change to the City's format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2004 on our consideration of the **City of New Baltimore, Michigan's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on Pages 3 through 13 and the Schedule of Funding Progress on Page 53 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *City of New Baltimore, Michigan's* basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Lehmann Johnson".

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

As management of the *City of New Baltimore, Michigan*, (the "City") we offer readers of the City's financial statements this narrative overview and analysis of the activities of the City for the fiscal year ended June 30, 2004.

Financial Highlights

- Net assets increased \$5,214,923 as a result of this year's operations. Net assets of our governmental activities increased \$4,012,983. The major components of the increase were capital outlays (less depreciation) and principal payments on long-term liabilities. Net assets of our business-type activities increased \$1,201,940 .
- Total cost of all of the City's programs was \$ 10,070,099
- The General Fund increased in fund balance by \$79,309 to \$1,274,715 . This is attributable primarily to increased revenues from charges for services while reducing expenditures to below budgeted expectations.
- The City invested \$1,788,549 (\$2,892,277 less depreciation of \$1,103,728) in capital assets including Main Street construction, contributed streets from subdivisions and purchases of land, vehicles and equipment.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include legislative, general government, public safety, public works, highways and streets, building and planning, culture and recreation, and other functions. The business-type activities of the City include water distribution and sanitary sewer operations.

CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

The government-wide financial statements include not only the City of New Baltimore itself (known as the *primary government*), but also a legally separate downtown development authority known as the New Baltimore Downtown Development Authority, for which the City is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

Fund financial statements. A *Fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

1. **Governmental funds** are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains eighteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, Local Streets and 1993 debt service funds which are considered to be major funds. Data from the other fifteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* after the *Notes to the Financial Statements*.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets for the General and Local Streets funds.

2. **Proprietary funds.** The City maintains two different types of proprietary funds: *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer and storm water drainage operations. *Internal Service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its equipment, public service and retiree health care activities. Because these services predominantly benefit governmental rather than business-type functions, they have been

CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The water, sewer and storm water funds are considered to be major funds of the City. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

3. **Fiduciary funds.** The Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to a schedule concerning the City's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of New Baltimore, assets exceeded liabilities by \$58,638,153 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (79%) reflects its investment in capital assets (e.g., land, buildings and improvements, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to residents; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Since this is the first year of implementation of GASB Statement Number 34, only current year financial information is presented. In subsequent years, the City will present comparative information.

CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

City of New Baltimore's Net Assets

	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 6,986,465	\$ 6,076,509	\$13,062,974
Capital assets, net	23,136,420	29,854,683	52,991,103
Total assets	<u>30,122,885</u>	<u>35,931,192</u>	<u>66,054,077</u>
Current liabilities	719,809	199,868	919,677
Noncurrent liabilities	6,371,247	125,000	6,496,247
Total liabilities	<u>7,091,056</u>	<u>324,868</u>	<u>7,415,924</u>
Net assets:			
Invested in capital assets, net of related debt	16,859,420	29,729,683	46,589,103
Restricted assets	4,328,086	213,837	4,541,923
Unrestricted	<u>1,844,323</u>	<u>5,662,804</u>	<u>7,507,127</u>
Total net assets	<u><u>\$ 23,031,829</u></u>	<u><u>\$ 35,606,324</u></u>	<u><u>\$58,638,153</u></u>

An additional portion of the City's net assets, \$4,541,923 or 8% represents resources that are subject to external or code restrictions on how they may be used. The remaining balance of *unrestricted net assets*, \$7,507,127 or 13%, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The City's net assets increased by \$5,214,923 during the current fiscal year. This was due predominantly to the results of Governmental activities as described below.

Governmental activities. Governmental activities increased the City's net assets by \$4,012,983 to \$23,031,829 This accounts for 77% of the City's change in total net assets. Key elements of this are as follows:

- Capital outlays of \$2,892,277 less depreciation of \$1,103,728.
- Principal payments on long-term liabilities of \$2,417,000

CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

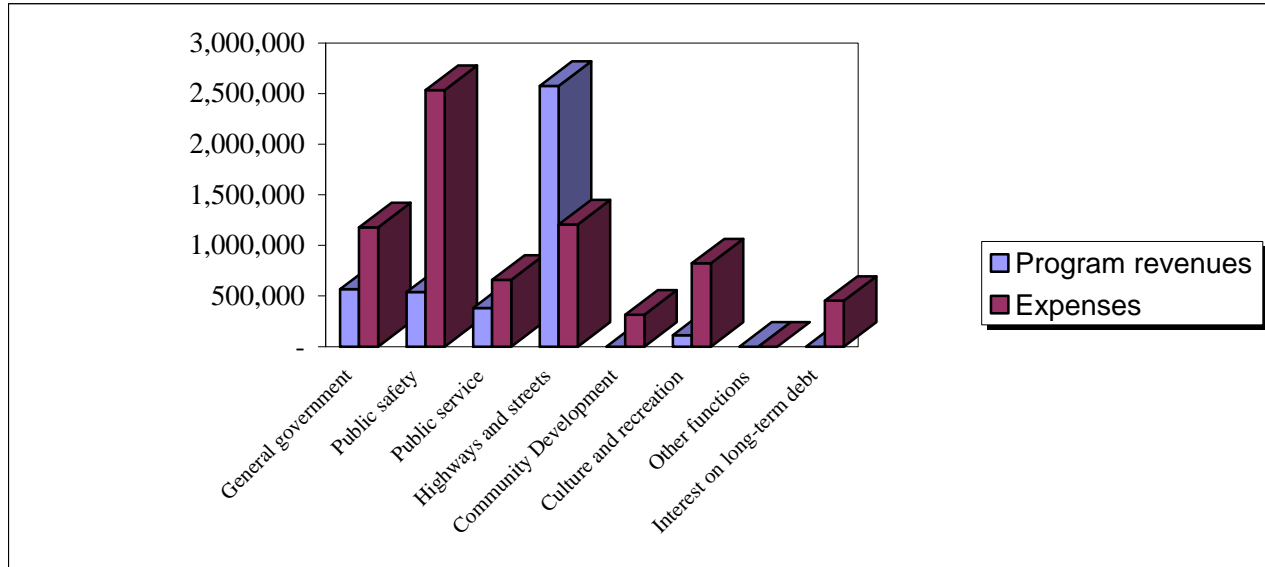
City of New Baltimore's Changes in Net Assets

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Revenue:			
Program revenues:			
Charges for services	\$ 1,506,062	\$ 3,065,015	\$ 4,571,077
Operating grants and contributions	538,882	-	538,882
Capital grants and contributions	2,135,085	2,701,695	4,836,780
General revenues:			
Property taxes	4,472,896	-	4,472,896
State shared revenue	644,043	-	644,043
Grants and contributions not restricted to specific programs	-	-	-
Other	141,438	79,906	221,344
Total revenues	<u>9,438,406</u>	<u>5,846,616</u>	<u>15,285,022</u>
Expenses:			
General government	1,179,992	-	1,179,992
Public safety	2,535,236	-	2,535,236
Public works	658,912	-	658,912
Highways and streets	1,208,576	-	1,208,576
Community development	314,226	-	314,226
Culture and recreation	823,067	-	823,067
Interest on long-term debt	452,558	-	452,558
Water		1,521,176	1,521,176
Sewer		1,175,298	1,175,298
Storm water	-	201,058	201,058
Total expenses	<u>7,172,567</u>	<u>2,897,532</u>	<u>10,070,099</u>
Increase in net assets before transfers	2,265,839	2,949,084	5,214,923
Transfers	1,747,144	(1,747,144)	-
Increase in net assets	4,012,983	1,201,940	5,214,923
Net assets-beginning	19,018,846	34,404,384	53,423,230
Net assets-ending	<u>\$ 23,031,829</u>	<u>\$ 35,606,324</u>	<u>\$ 58,638,153</u>

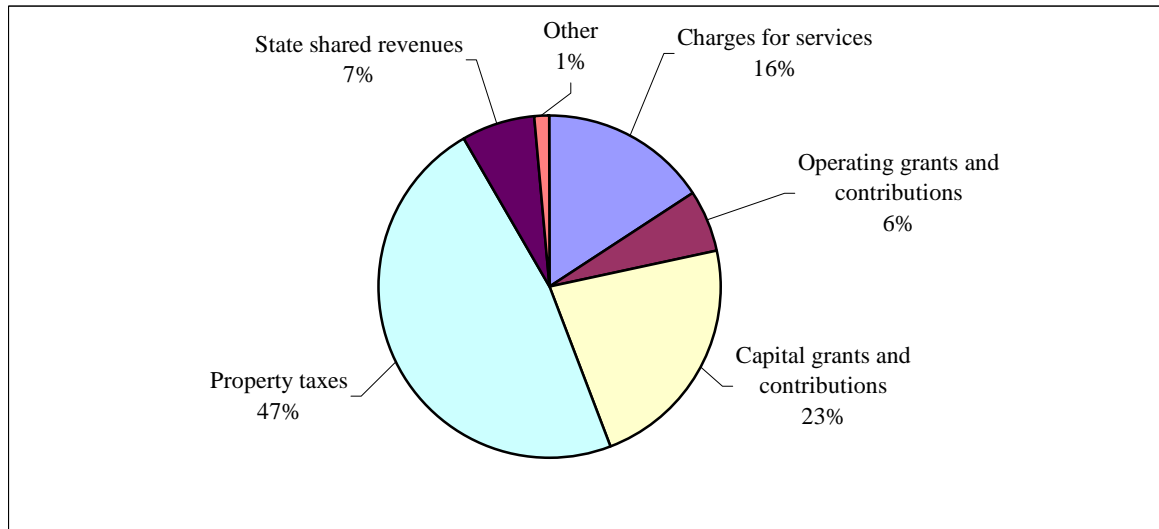
CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities



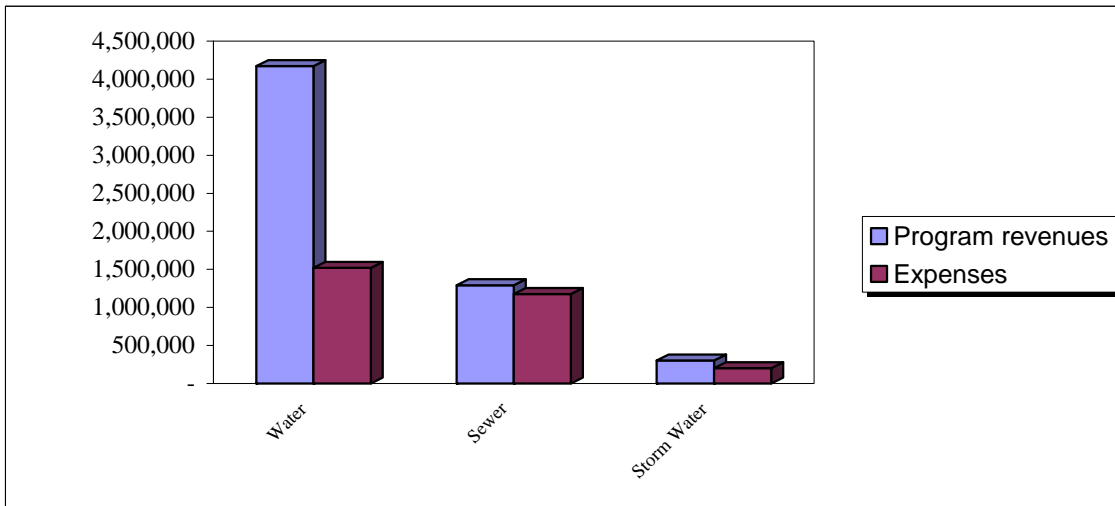
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Management's Discussion and Analysis

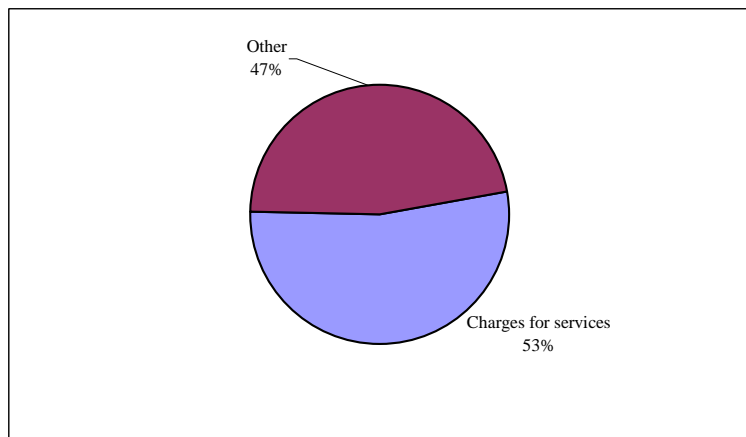
Business-type Activities. Business-type activities increased the City's net assets by \$1,201,940 , accounting for 23% of the total growth in the City's net assets. Key elements of this increase are as follows:

- Federal and state capital grants

Expenses and Program Revenues - Business-Type Activities



Revenues by Sources – Business-Type Activities



CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,602,801, decrease of (\$303,920) in comparison with the prior year. Approximately 84% of this total amount, \$4,691,374 constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to other purposes.

Major Governmental Funds:

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, *unreserved* fund balance of the general fund was \$1,244,033, while total fund balance was \$1,274,715. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 28.1% of total general fund expenditures, while total fund balance represents 28.8% of the same amount.

The fund balance of the City's general fund increased by \$79,309 during the current fiscal year. This is attributable primarily to increased revenues from charges for services while reducing expenditures to below budgeted expectations.

The Local Streets Fund receives state shared gas and weight tax revenue for street maintenance. In addition, contributed local streets from residential developments are also accounted for in this fund. Revenue along with the corresponding expenditure in the amount of \$2,059,912 was recognized for contributed local streets during the fiscal year.

The 1993 Debt Service Fund effectively extinguished all remaining general obligation bonds from the 1993 issue in the amount of \$2,050,000 during the current fiscal year. The resources for the were derived through available funds in the 1993 Debt Service Fund along with a transfer from the water fund in the amount of \$1,781,151.

CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

Proprietary fund. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Funds at the end of the year amounted to \$798,827 and \$3,660,460, respectively, while unrestricted net assets of the Storm Water Fund at year end amounted to \$758,455. The Water Fund increased net assets by \$871,229 and the Sewer Fund decreased net assets by (\$177,361) during the current fiscal year. The Storm Water Fund increased in net assets during the current fiscal year in the amount of \$484,019. Factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were modest. The increase in budgeted revenues of \$113,384 and decrease in budgeted expenditures of \$(113,400) can be briefly summarized as follows:

- The revenue budget for property taxes increased \$73,648. The charge for services for refuse collection increased \$39,736.
- The Police Department budget was increased \$75,000 due to added labor, pension and health care costs. Other components of the increase were 911 dispatch services, equipment and maintenance costs and an increase in liability insurance.
- The attorney's budget was increased \$40,000 due to increased litigation.
- Adjustments to the recreation budget helped offset the aforementioned increases and accounted for most of the General Fund expenditure decreases.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounted to \$52,863,849 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, vehicles and equipment, and roads, highways, and other infrastructure. The total increase in the City's investment in capital assets for the current fiscal year was \$1,644,007 or 8% which represents increase in governmental activities of \$3,172,272 or 12%, and increase in business-type activities of \$3,172,272 or 12%.

Major capital asset events during the current fiscal year included the following:

- The M-29 and Alfred Street water main project.
- The Water Plant construction project.
- The M-29 Streetscape project.
- Contributed streets and the associated land
- The Main street construction project.

CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

City of New Baltimore's Capital Assets (net of depreciation)

	Governmental Activities	Business-Type Activities	Total
Land	\$ 4,493,201	\$ 886,147	\$ 5,379,348
Construction in process	108,088	300,030	408,118
Land improvements	397,835	115,750	513,585
Buildings and improvements	294,753	6,444,920	6,739,673
Library books	127,254	-	127,254
Vehicles and equipment	870,784	482,398	1,353,182
Infrastructure and systems	16,844,505	21,625,438	38,469,943
Total	<u>\$ 23,136,420</u>	<u>\$ 29,854,683</u>	<u>\$ 52,991,103</u>

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$6,402,000 . Debt consists of general obligation bonds which is backed by the full faith and credit of the City and special assessment bonds in which the City is liable in the event of default by the property owners subject to the assessment. Outstanding obligations as of the end of the fiscal year are as follow:

City of New Baltimore's Outstanding Debt

	Governmental Activities	Business-Type Activities	Total
General obligation bonds	\$ 5,545,000	\$ -	\$ 5,545,000
Special assessment bonds	732,000	125,000	857,000
	<u>\$ 6,277,000</u>	<u>\$ 125,000</u>	<u>\$ 6,402,000</u>

The City's total debt decreased by (\$2,638,324) during the current fiscal year. There were no new issues of general obligation debt during the year ended June 30, 2004. Governmental long-term debt decreased by (\$2,513,324), while business-type debt outstanding decreased (\$125,000) for the current fiscal year.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2004-05 fiscal year:

- Increase in property tax revenue due to community growth and property appreciation.
- Sluggish Michigan economy: especially legislative cuts in state shared sales tax revenues.
- Contractual wage increases, an increase in pension contributions and rising health care costs.

CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

Requests for Information

This financial report is designed to provide a general overview of the City of New Baltimore's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk, 36535 Green Street, New Baltimore, Michigan 48047.

***BASIC FINANCIAL
STATEMENTS***

City of New Baltimore, Michigan
Statement of Net Assets
June 30, 2004

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Units</u>
Assets				
Cash and cash equivalents	\$ 1,789,410	\$ 2,304,600	\$ 4,094,010	\$ 315,156
Investments	4,839,011	2,631,000	7,470,011	-
Receivables (net)	497,029	407,920	904,949	479
Internal balances	(314,352)	314,352	-	-
Inventory	-	71,582	71,582	-
Prepaid items and other assets	175,367	133,218	308,585	-
Restricted assets:				
Cash and investments	-	213,837	213,837	-
Capital assets:				
Assets not being depreciated	4,601,289	1,186,177	5,787,466	-
Assets being depreciated, net	18,535,131	28,668,506	47,203,637	340,655
Total assets	<u>30,122,885</u>	<u>35,931,192</u>	<u>66,054,077</u>	<u>656,290</u>
Liabilities				
Accounts payable	95,931	133,061	228,992	-
Accrued liabilities	623,878	66,807	690,685	5,627
Noncurrent liabilities:				
Due within one year	400,000	125,000	525,000	16,272
Due in more than one year	5,971,247	-	5,971,247	123,500
Total liabilities	<u>7,091,056</u>	<u>324,868</u>	<u>7,415,924</u>	<u>145,399</u>
Net assets				
Invested in capital assets, net of related debt	16,859,420	29,729,683	46,589,103	200,883
Restricted for:				
Debt service	811,234	213,837	1,025,071	-
Highways and streets	1,389,358	-	1,389,358	-
Public safety	297,673	-	297,673	-
Recreation and culture	389,231	-	389,231	-
Perpetual care:				
Expendable	178,035	-	178,035	-
Unexpendable	66,696	-	66,696	-
Other purposes	1,195,859	-	1,195,859	-
Unrestricted	1,844,323	5,662,804	7,507,127	310,008
Total net assets	<u>\$ 23,031,829</u>	<u>\$ 35,606,324</u>	<u>\$ 58,638,153</u>	<u>\$ 510,891</u>

The accompanying notes are an integral part of these financial statements.

City of New Baltimore, Michigan
Statement of Activities
For the Year Ended June 30, 2004

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government	\$ 1,179,992	\$ 466,254	\$ 27,369	\$ 75,173	\$ (611,196)
Public safety	2,535,236	496,923	42,288	-	(1,996,025)
Public works	658,912	382,252	-	-	(276,660)
Highways and streets	1,208,576	74,045	443,946	2,059,912	1,369,327
development	314,226	-	-	-	(314,226)
Recreation and culture	823,067	86,588	25,279	-	(711,200)
Interest on long-term debt	452,558	-	-	-	(452,558)
Total governmental activities	<u>7,172,567</u>	<u>1,506,062</u>	<u>538,882</u>	<u>2,135,085</u>	<u>(2,992,538)</u>
Business-type activities:					
Water	1,521,176	1,470,094	-	2,701,695	2,650,613
Sewer	1,175,298	1,290,791	-	-	115,493
Storm Water	201,058	304,130	-	-	103,072
Total business-type activities	<u>2,897,532</u>	<u>3,065,015</u>	<u>-</u>	<u>2,701,695</u>	<u>2,869,178</u>
Total primary government	<u>\$ 10,070,099</u>	<u>\$ 4,571,077</u>	<u>\$ 538,882</u>	<u>\$ 4,836,780</u>	<u>\$ (123,360)</u>
Component units:					
Downtown development authority	\$ 30,634	\$ -	\$ -	\$ -	\$ (30,634)
Economic development corporation	-	-	-	-	-
Local development financing authority	-	-	-	-	-
Total component units	<u>\$ 30,634</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (30,634)</u>

continued...

The accompanying notes are an integral part of these financial statements.

City of New Baltimore, Michigan
Statement of Activities (Concluded)
For the Year Ended June 30, 2004

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	\$ (2,992,538)	\$ 2,869,178	\$ (123,360)	\$ (30,634)
General revenues:				
Property taxes	3,308,102	-	3,308,102	167,929
Property taxes for other purposes	1,164,794	-	1,164,794	-
State shared revenue	644,043	-	644,043	-
Grants and contributions not restricted to specific programs	-	-	-	120
Unrestricted investment earnings	125,609	77,386	202,995	2,679
Insurance recoveries	15,817	2,520	18,337	-
Gain on sale of capital assets	12	-	12	-
Transfers - internal activities	1,747,144	(1,747,144)	-	-
Total general revenues and transfers	7,005,521	(1,667,238)	5,338,283	170,728
Change in net assets	4,012,983	1,201,940	5,214,923	140,094
Net assets, beginning of year, as restated	19,018,846	34,404,384	53,423,230	370,797
Net assets, end of year	<u>\$ 23,031,829</u>	<u>\$ 35,606,324</u>	<u>\$ 58,638,153</u>	<u>\$ 510,891</u>

The accompanying notes are an integral part of these financial statements.

City of New Baltimore, Michigan
Balance Sheet
Governmental Funds
June 30, 2004

	General	Local Streets	1993 Debt Service	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 301,953	\$ 161,878	\$ 784	\$ 1,023,742	\$ 1,488,357
Receivables:					
Accounts receivable (net)	84,486	-	-	106	84,592
Taxes-delinquent	23,038	-	2,009	6,465	31,512
Special assessments	-	-	-	39,021	39,021
Interest and dividends	479	202	-	1,612	2,293
Due from other funds	8,210	-	-	661,800	670,010
Due from other governments	257,992	26,006	194	49,813	334,005
Investments	1,799,064	-	-	2,454,233	4,253,297
Prepaid expenditures	30,682	-	-	2,815	33,497
Total assets	<u>\$ 2,505,904</u>	<u>\$ 188,086</u>	<u>\$ 2,987</u>	<u>\$ 4,239,607</u>	<u>\$ 6,936,584</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 61,692	\$ 602	\$ -	\$ 27,930	\$ 90,224
Due to other funds	194,951	9,430	-	13,393	217,774
Due to other governments	2,362	-	-	-	2,362
Accrued liabilities	496,176	-	-	3,560	499,736
Deferred revenue	71,934	-	2,009	45,670	119,613
Advances from other funds	404,074	-	-	-	404,074
Total liabilities	<u>1,231,189</u>	<u>10,032</u>	<u>2,009</u>	<u>90,553</u>	<u>1,333,783</u>
Fund balances:					
Reserved for:					
Debt service	-	-	978	810,256	811,234
Prepaid expenditures	30,682	-	-	2,815	33,497
Perpetual care	-	-	-	66,696	66,696
Unreserved, undesignated for:					
General fund	1,244,033	-	-	-	1,244,033
Special revenue funds	-	178,054	-	3,091,252	3,269,306
Permanent fund	-	-	-	178,035	178,035
Total fund balances	<u>1,274,715</u>	<u>178,054</u>	<u>978</u>	<u>4,149,054</u>	<u>5,602,801</u>
Total liabilities and fund balances	<u>\$ 2,505,904</u>	<u>\$ 188,086</u>	<u>\$ 2,987</u>	<u>\$ 4,239,607</u>	<u>\$ 6,936,584</u>

The accompanying notes are an integral part of these financial statements.

City of New Baltimore, Michigan
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
For the Year Ended June 30, 2004

Fund balances - total governmental funds	\$ 5,602,801
------------------------------------------	--------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	29,538,661
Deduct: accumulated depreciation	(6,922,193)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred revenues	119,613
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Internal service funds are used by management to charge the costs of certain equipment usage, public service department and retiree health care costs to individual governmental funds. A portion of the assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service funds	1,010,332
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Add: deferred bond premiums	124,775
Deduct: accrued interest	(70,913)
Deduct: bonds payable	(6,277,000)
Deduct: compensated absences	(94,247)

Net assets of governmental activities	<u><u>\$ 23,031,829</u></u>
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The accompanying notes are an integral part of these financial statements.

City of New Baltimore, Michigan
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

	<u>General</u>	<u>Local Streets</u>	<u>1993 Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Property taxes	\$ 3,319,647	\$ -	\$ 250,285	\$ 914,509	\$ 4,484,441
Special assessments	-	-	-	52,997	52,997
Licenses and permits	216,997	-	-	423,598	640,595
Intergovernmental	692,915	153,018	-	375,099	1,221,032
Charges for services	663,931	90	-	33,466	697,487
Fines and forfeitures	40,782	-	-	7,214	47,996
Contributions	-	2,059,912	-	15,421	2,075,333
Investment earnings	51,126	1,942	925	58,249	112,242
Other	27,770	-	-	60,862	88,632
Total revenues	<u>5,013,168</u>	<u>2,214,962</u>	<u>251,210</u>	<u>1,941,415</u>	<u>9,420,755</u>
Expenditures					
Current:					
General government	1,255,595	-	-	53,833	1,309,428
Public safety	2,026,237	-	-	355,641	2,381,878
Public works	657,176	-	-	-	657,176
Highways and streets	-	2,244,357	-	222,417	2,466,774
Community development				101,821	101,821
Recreation and culture	391,065	-	-	346,424	737,489
Other functions	93,319	-	-	-	93,319
Debt service					
Principal	-	-	2,050,000	367,000	2,417,000
Interest and fees	-	-	60,082	314,020	374,102
Capital Outlay	-	-	-	832,365	832,365
Total expenditures	<u>4,423,392</u>	<u>2,244,357</u>	<u>2,110,082</u>	<u>2,593,521</u>	<u>11,371,352</u>
Revenues over (under) expenditures	<u>589,776</u>	<u>(29,395)</u>	<u>(1,858,872)</u>	<u>(652,106)</u>	<u>(1,950,597)</u>
Other financing sources (uses)					
Transfers in	-	144,439	1,781,151	385,000	2,310,590
Transfers out	(526,784)	-	-	(153,446)	(680,230)
Proceeds from sale of capital assets	500	-	-	-	500
Insurance proceeds	15,817	-	-	-	15,817
Total other financing sources (uses)	<u>(510,467)</u>	<u>144,439</u>	<u>1,781,151</u>	<u>231,554</u>	<u>1,646,677</u>
Net change in fund balances	79,309	115,044	(77,721)	(420,552)	(303,920)
Fund balances, beginning of year, as restated	<u>1,195,406</u>	<u>63,010</u>	<u>78,699</u>	<u>4,569,606</u>	<u>5,906,721</u>
Fund balances, end of year	<u>\$ 1,274,715</u>	<u>\$ 178,054</u>	<u>\$ 978</u>	<u>\$ 4,149,054</u>	<u>\$ 5,602,801</u>

The accompanying notes are an integral part of these financial statements.

City of New Baltimore, Michigan
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2004

Net change in fund balances - total governmental funds	\$ (303,920)
--------------------------------------------------------	--------------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	2,892,277
Deduct: depreciation expense	(1,103,728)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Deduct: net difference in deferred revenue	(11,542)
--------------------------------------------	----------

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	2,417,000
--------------------------------------------------	-----------

Internal service funds are used by management to charge the costs of certain equipment, public service department and retiree health care costs to individual governmental funds. The net revenue (expense) attributable to those funds are reported with governmental

Add: net operating income from governmental activities in the internal service funds	199,492
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in accrued interest expense	(78,456)
Add: increase in the accrual for compensated absences	1,860

Change in net assets of governmental activities	\$ 4,012,983
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The accompanying notes are an integral part of these financial statements.

City of New Baltimore, Michigan
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property taxes	\$ 3,277,421	\$ 3,341,069	\$ 3,319,647	\$ (21,422)
Licenses and permits	193,928	193,928	216,997	23,069
Intergovernmental:				
Federal grants	52,000	52,000	38,963	(13,037)
State grants	681,484	681,484	653,952	(27,532)
Charges for services	575,500	615,236	663,931	48,695
Fines and forfeitures	37,200	47,200	40,782	(6,418)
Investment earnings	50,000	50,000	51,126	1,126
Other	4,500	4,500	27,770	23,270
Total revenues	<u>4,872,033</u>	<u>4,985,417</u>	<u>5,013,168</u>	<u>27,751</u>
Expenditures				
General government:				
Council	66,002	69,192	67,813	1,379
Mayor	148,464	149,664	147,502	2,162
Elections	64,104	48,704	47,762	942
Assessor	125,009	125,009	118,221	6,788
Attorney	126,000	166,000	164,470	1,530
Clerk	437,142	438,142	431,627	6,515
Board of review	1,500	1,576	1,576	-
Treasurer	92,329	92,329	87,875	4,454
Building and grounds	68,975	54,975	54,135	840
Planning	67,850	63,850	62,787	1,063
Engineering	75,281	70,281	71,827	(1,546)
Total general government	<u>1,272,656</u>	<u>1,279,722</u>	<u>1,255,595</u>	<u>24,127</u>
Public safety:				
Police	1,650,795	1,725,795	1,728,136	(2,341)
Fire	300,622	300,622	286,267	14,355
Crossing guards	14,407	14,407	11,834	2,573
Total public safety	<u>1,965,824</u>	<u>2,040,824</u>	<u>2,026,237</u>	<u>14,587</u>

Continued.....

City of New Baltimore, Michigan
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Concluded.....				
Public works:				
Street Lighting	\$ 130,000	\$ 158,000	\$ 154,424	\$ 3,576
Sidewalk and trail construction	37,500	49,500	47,202	2,298
Rubbish and garbage collection	344,017	392,017	399,251	(7,234)
Community tree program	21,245	57,245	56,299	946
Total public works	<u>532,762</u>	<u>656,762</u>	<u>657,176</u>	<u>(414)</u>
Recreation and culture:				
Parks and recreation	<u>580,748</u>	<u>394,829</u>	<u>391,065</u>	<u>3,764</u>
Other functions:				
Community promotion	107,296	92,296	93,319	(1,023)
Other expenditures	<u>121,047</u>	<u>2,500</u>	<u>-</u>	<u>2,500</u>
Total other expenditures	<u>228,343</u>	<u>94,796</u>	<u>93,319</u>	<u>1,477</u>
Total expenditures	<u>4,580,333</u>	<u>4,466,933</u>	<u>4,423,392</u>	<u>43,541</u>
Revenues over (under) expenditures	<u>291,700</u>	<u>518,484</u>	<u>589,776</u>	<u>71,292</u>
Other financing sources (uses)				
Transfers in	10,000	10,000	-	(10,000)
Transfers out	(65,000)	(526,784)	(526,784)	-
Proceeds from sale of capital assets	-	-	500	500
Insurance proceeds	<u>-</u>	<u>-</u>	<u>15,817</u>	<u>15,817</u>
Total other financing (uses)	<u>(55,000)</u>	<u>(516,784)</u>	<u>(510,467)</u>	<u>6,317</u>
Net change in fund balances	236,700	1,700	79,309	77,609
Fund balance, beginning of year, as restated	<u>1,195,406</u>	<u>1,195,406</u>	<u>1,195,406</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 1,432,106</u></u>	<u><u>\$ 1,197,106</u></u>	<u><u>\$ 1,274,715</u></u>	<u><u>\$ 77,609</u></u>

The accompanying notes are an integral part of these financial statements.

City of New Baltimore, Michigan
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Local Streets
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive
				(Negative)
Revenues				
State grants and reimbursements	\$ 121,633	\$ 121,633	\$ 153,018	\$ 31,385
Charges for services	5,000	5,000	90	(4,910)
Contributed streets	-	-	2,059,912	2,059,912
Investment earnings	450	450	1,942	1,492
Total revenues	<u>127,083</u>	<u>127,083</u>	<u>2,214,962</u>	<u>2,087,879</u>
Expenditures				
Construction	-	-	2,059,912	(2,059,912)
Street maintenance	180,283	180,283	72,587	107,696
Signs and markings	11,500	11,500	7,304	4,196
Snow removal	<u>77,000</u>	<u>77,000</u>	<u>104,554</u>	<u>(27,554)</u>
Total expenditures	<u>268,783</u>	<u>268,783</u>	<u>2,244,357</u>	<u>(1,975,574)</u>
Revenues over (under) expenditures	(141,700)	(141,700)	(29,395)	112,305
Other financing sources (uses)				
Transfers in	<u>144,439</u>	<u>144,439</u>	<u>144,439</u>	<u>-</u>
Net change in fund balances	2,739	2,739	115,044	112,305
Fund balance, beginning of year	<u>63,010</u>	<u>63,010</u>	<u>63,010</u>	<u>-</u>
Fund balance, end of year	<u>\$ 65,749</u>	<u>\$ 65,749</u>	<u>\$ 178,054</u>	<u>\$ 112,305</u>

The accompanying notes are an integral part of these financial statements.

City of New Baltimore, Michigan
Statement of Net Assets
Proprietary Funds
June 30, 2004

	Business-type Activities - Enterprise Funds				Governmental Activities
	Major Funds				Internal Service Funds
	Water	Sewer	Storm Water	Total	
Assets					
Current assets:					
Cash and cash equivalents	\$ 215,377	\$ 1,303,535	\$ 785,688	\$ 2,304,600	\$ 301,053
Investments	250,394	1,926,341	454,265	2,631,000	585,714
Accounts receivable	162,259	219,056	-	381,315	3,656
Special assessments receivable	-	19,854	-	19,854	-
Interest receivable	147	5,448	1,156	6,751	463
Due from other funds	15,051	30,993	-	46,044	86,182
Due from other governments	-	-	-	-	1,487
Inventories	71,582	-	-	71,582	-
Prepaid expenses	120,658	5,901	-	126,559	17,095
Bond issuance costs	-	6,659	-	6,659	-
Total current assets	<u>835,468</u>	<u>3,517,787</u>	<u>1,241,109</u>	<u>5,594,364</u>	<u>995,650</u>
Noncurrent assets:					
Restricted cash	-	213,837	-	213,837	-
Advances to other funds	202,037	202,037	-	404,074	-
Capital assets, net of accumulated depreciation	<u>13,474,023</u>	<u>13,893,324</u>	<u>2,487,336</u>	<u>29,854,683</u>	<u>519,952</u>
Total noncurrent assets	<u>13,676,060</u>	<u>14,309,198</u>	<u>2,487,336</u>	<u>30,472,594</u>	<u>519,952</u>
Total assets	<u>14,511,528</u>	<u>17,826,985</u>	<u>3,728,445</u>	<u>36,066,958</u>	<u>1,515,602</u>
Liabilities					
Current liabilities:					
Accounts payable	83,507	14,508	35,046	133,061	3,345
Due to other funds	122,137	11,083	447,608	580,828	3,634
Accrued liabilities	33,034	33,773	-	66,807	53,229
Current portion of long-term debt	-	125,000	-	125,000	-
Total current liabilities	<u>238,678</u>	<u>184,364</u>	<u>482,654</u>	<u>905,696</u>	<u>60,208</u>
Net Assets					
Investment in capital assets, net of related debt	13,474,023	13,768,324	2,487,336	29,729,683	519,952
Restricted for debt service	-	213,837	-	213,837	-
Unrestricted	<u>798,827</u>	<u>3,660,460</u>	<u>758,455</u>	<u>5,217,742</u>	<u>935,442</u>
Total net assets	<u>\$ 14,272,850</u>	<u>\$ 17,642,621</u>	<u>\$ 3,245,791</u>	<u>35,161,262</u>	<u>\$ 1,455,394</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				<u>445,062</u>	
Net assets of business type activities				<u>\$ 35,606,324</u>	

The accompanying notes are an integral part of these financial statements.

City of New Baltimore, Michigan
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2004

	Business-type Activities - Enterprise Funds				Governmental Activities
	Major Funds				Internal Service Funds
	Water	Sewer	Storm Water	Total	
Operating revenues					
Charges for services	\$ 1,469,454	\$ 1,290,541	\$ 292,738	\$ 3,052,733	\$ 1,053,266
Contributions	-	-	-	-	131,646
Miscellaneous income	640	250	11,392	12,282	-
Total operating revenues	1,470,094	1,290,791	304,130	3,065,015	1,184,912
Operating expenses					
General and administrative	171,056	201,570	43,816	416,442	-
Customer accounts	-	-	20,000	20,000	-
Plant operation	577,165	378,785	-	955,950	-
System network	495,588	153,969	66,291	715,848	-
Services	-	-	-	-	1,030,531
Depreciation	291,941	433,720	71,759	797,420	61,196
Amortization	-	5,000	-	5,000	-
Total operating expenses	1,535,750	1,173,044	201,866	2,910,660	1,091,727
Operating income (loss)	(65,656)	117,747	102,264	154,355	93,185
Non-operating revenues (expenses)					
Interest income	16,341	50,239	10,806	77,386	13,365
Appreciation in fair value of investments	-	-	-	-	19,166
Interest expense	-	(10,925)	-	(10,925)	-
Gain (loss) on sale of capital assets	-	-	-	-	(18,955)
Insurance proceeds	-	2,520	-	2,520	-
Total non-operating revenues (expenses)	16,341	41,834	10,806	68,981	13,576
Income before contributions and transfers	(49,315)	159,581	113,070	223,336	106,761
Intergovernmental capital contributions:					
Federal grants	2,211,337	-	-	2,211,337	-
State grants	490,358	-	-	490,358	-
Transfers in	-	-	370,949	370,949	116,784
Transfers out	(1,781,151)	(336,942)	-	(2,118,093)	-
Change in net assets	871,229	(177,361)	484,019	1,177,887	223,545
Net assets, beginning of year, as restated	13,401,621	17,819,982	2,761,772		1,231,849
Net assets, end of year	\$ 14,272,850	\$17,642,621	\$ 3,245,791		\$ 1,455,394
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				24,053	
Change in net assets of business-type activities				<u>\$ 1,201,940</u>	

The accompanying notes are an integral part of these financial statements.

City of New Baltimore, Michigan
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2004

	Business-type Activities - Enterprise Funds				Governmental Activities
	Major Funds				Internal Service Funds
	Water	Sewer	Storm Water	Total	
Cash flows from operating activities					
Cash received from customers and others	\$ 1,483,531	\$ 1,113,810	\$ 304,130	\$ 2,901,471	\$ -
Cash received from interfund services	-	-	-	-	1,196,631
Cash payments to employees	(320,375)	(168,872)	-	(489,247)	(514,100)
Cash payments to suppliers for goods and services	(557,428)	(215,569)	(55,655)	(828,652)	(600,968)
Cash payments for interfund services	(160,649)	(179,521)	406,733	66,563	-
Net cash provided (used) by operating activities	445,079	549,848	655,208	1,650,135	81,563
Cash flows from non-capital financing activities					
Transfers from other funds	-	-	-	-	116,784
Transfers to other funds	(1,781,151)	(336,942)	-	(2,118,093)	-
Net cash provided (used) by non-capital financing activities	(1,781,151)	(336,942)	-	(2,118,093)	116,784
Cash flows from capital and related financing activities					
Purchase of capital assets	(3,399,667)	(548,032)	(65,781)	(4,013,480)	(41,889)
Bond/note principal payments	-	(125,000)	-	(125,000)	-
Bond/note interest payments	-	(5,925)	-	(5,925)	-
Proceeds from insurance settlements	-	2,520	-	2,520	-
Capital contribution	2,701,695	-	-	2,701,695	-
Net cash provided (used) by capital and related financing activities	(697,972)	(676,437)	(65,781)	(1,440,190)	(41,889)
Cash flows from investing activities					
Purchases of investments	(250,394)	(1,926,341)	(454,265)	(2,631,000)	(585,714)
Proceeds from interfund loan payments	19,241	19,241	-	38,482	-
Investment income	25,108	61,246	11,642	97,996	32,995
Net cash (used) by investing activities	(206,045)	(1,845,854)	(442,623)	(2,494,522)	(552,719)
Net increase (decrease) in cash and cash equivalents	(2,240,089)	(2,309,385)	146,804	(4,402,670)	(396,261)
Cash and cash equivalents, beginning of year	2,455,466	3,612,920	638,884	6,707,270	697,314
Cash and cash equivalents, end of year	\$ 215,377	\$ 1,303,535	\$ 785,688	\$ 2,304,600	\$ 301,053

The accompanying notes are an integral part of these financial statements.

Continued...

City of New Baltimore, Michigan
Statement of Cash Flows (Concluded)
Proprietary Funds
For the Year Ended June 30, 2004

Concluded	Business-type Activities - Enterprise Funds				Governmental Activities
	Major Funds			Total	Internal Service Funds
	Water	Sewer	Storm Water		
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ (65,656)	\$ 117,747	\$ 102,264	\$ 154,355	\$ 93,185
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	291,941	433,720	71,759	797,420	61,196
Changes in assets and liabilities:					
Accounts receivable - customers	13,437	(219,056)	-	(205,619)	(988)
Special assessments receivable		42,075	-	42,075	
Due from other funds	(15,051)	(30,993)	-	(46,044)	14,194
Due from other governments	-	-	-	-	(1,487)
Inventories	(6,259)	217,038	-	210,779	-
Prepaid items	94,855	(860)	-	93,995	(228)
Bond issuance costs	-	5,000	-	5,000	-
Accounts payable	51,517	2,363	33,577	87,457	(10,545)
Due to other funds	82,251	(20,633)	447,608	509,226	(65,432)
Accrued liabilities	(1,956)	3,447	-	1,491	(8,332)
Net cash provided by operating activities	<u>\$ 445,079</u>	<u>\$ 549,848</u>	<u>\$ 655,208</u>	<u>\$ 1,650,135</u>	<u>\$ 81,563</u>

The accompanying notes are an integral part of these financial statements.

City of New Baltimore, Michigan
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	<u>Pension Trust</u>	<u>Agency</u>
ASSETS		
Cash and cash equivalents	\$ 13,209	\$ 190
Investments	5,393,346	-
Total assets	<u>5,406,555</u>	<u>\$ 190</u>
LIABILITIES		
Liabilities		
Other liabilities	<u>-</u>	<u>\$ 190</u>
NET ASSETS		
Held in trust for pension benefits	<u>\$ 5,406,555</u>	

The accompanying notes are an integral part of these financial statements.

City of New Baltimore, Michigan

Statement of Changes in Fiduciary Net Assets Retirement Systems For the Year Ended June 30, 2004

	Pension Trusts
Additions	
Contributions	
Employer contributions	\$ 273,144
Employee contributions	118,248
Total contributions	<u>391,392</u>
Investment income	
Net appreciation in fair value	486,417
Less investment expense	<u>(3,194)</u>
Net investment income	<u>483,223</u>
Total additions (deductions)	<u>874,615</u>
Deductions	
Benefits	163,180
Administrative expenses	<u>5,800</u>
Total deductions	<u>168,980</u>
Net increase (decrease) in plan net assets	705,635
Net assets held in trust for pension benefits - beginning of year	<u>4,700,920</u>
Net assets held in trust for pension benefits - end of year	<u><u>\$ 5,406,555</u></u>

The accompanying notes are an integral part of these financial statements.

City of New Baltimore, Michigan

Combining Statement of Net Assets - Component Units

June 30, 2004

	Downtown Development Authority	Economic Development Corporation	Local Development Financing Authority	Total
Assets				
Cash and cash equivalents	\$ 33,860	\$ 15,200	\$ 266,096	\$ 315,156
Receivables, net	-	-	479	479
Capital assets:				
Depreciable, net	340,655	-	-	340,655
Total assets	374,515	15,200	266,575	656,290
Liabilities				
Accrued liabilities	5,627	-	-	5,627
Long-term liabilities:				
Due within one year	16,272	-	-	16,272
Due in more than one year	123,500	-	-	123,500
Total liabilities	145,399	-	-	145,399
Net assets				
Invested in capital assets, net of related debt	200,883	-	-	200,883
Unrestricted	28,233	15,200	266,575	310,008
Total net assets	\$ 229,116	\$ 15,200	\$ 266,575	\$ 510,891

The accompanying notes are an integral part of these financial statements.

City of New Baltimore, Michigan

Combining Statement of Activities - Component Units For the Year Ended June 30, 2004

	Downtown Development Authority	Economic Development Corporation	Local Development Financing Authority	Total
Expenses				
Community and economic development	\$ 30,634	\$ -	\$ -	\$ 30,634
General revenues				
Property taxes	54,524	-	113,405	167,929
Other revenues	120	-	-	120
Unrestricted investment earnings	247	95	2,337	2,679
Total general revenues	54,891	95	115,742	170,728
Change in net assets	24,257	95	115,742	140,094
Net assets, beginning of year	204,859	15,105	150,833	370,797
Net assets, end of year	\$ 229,116	\$ 15,200	\$ 266,575	\$ 510,891

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN

Notes To Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-A. Reporting Entity

The accompanying financial statements present the activities of the City of New Baltimore, Michigan (the “City” or “government”) and its three component units, which are legally separate organizations for which the City is financially accountable. These discretely presented component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City. The component units all have a June 30th year-ends.

Component Unit	Included in the Reporting Entity Because	Separate Financial Statements Available
Downtown Development Authority (DDA); corrects and prevents deterioration in the downtown district, encourages historical preservation, and promotes economic growth within the downtown district .	City Mayor and Council approve DDA board.	Not prepared
Economic Development Corporation (EDC); provides a means and methods for the encouragement of industrial and commercial enterprises in relocating, purchasing, constructing or improving within the City.	City Mayor and Council approve EDC board and annual budget.	Not prepared
Local Development Finance Authority (LDFA); prevents conditions of unemployment and promotes economic growth by providing those public improvements necessary to promote and sustain industrial development within the established district.	City Mayor and Council approve LDFA board and annual budget.	Not prepared

1-B. Basis of Presentation

Government-wide Financial Statements. The statements of net assets and activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the City’s *governmental* and *business-type activities*. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that

CITY OF NEW BALTIMORE, MICHIGAN

Notes To Financial Statements

are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

General fund. This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Local streets fund. This fund accounts for activities, maintenance and capital improvements of the City's local streets.

1993 debt service fund. This fund accounts for the resources accumulated and payments made for principal and interest on 1993 long-term general obligation bonds.

The City reports the following major enterprise funds:

Water fund. This fund accounts for the activities of the City's water treatment and distribution systems.

Sewer fund. This fund accounts for the activities of the City's sewage disposal and treatment systems.

Storm water fund. This fund accounts for the activities of the City's storm water drainage systems.

Additionally, the City reports the following fund types:

Special revenue funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Debt service funds. These funds account for the resources accumulated and payments made for principal and interest on the City's long-term obligation bonds of governmental funds.

Enterprise funds. These funds account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Permanent funds. These funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs.

CITY OF NEW BALTIMORE, MICHIGAN

Notes To Financial Statements

Internal service funds. These funds account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. These include vehicles and equipment maintenance, the department of public services and the retiree health care funds.

Pension trust fund. This fund accounts for the activities of the City of New Baltimore Employees Retirement System, which accumulates resources for retirement benefit payments to qualified employees.

Agency funds. These funds account for assets held for other governments in an agency capacity.

1-C. Measurement Focus / Basis of Accounting

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's enterprise funds and internal services funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Property taxes, franchise taxes, intergovernmental revenues, licenses and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

CITY OF NEW BALTIMORE, MICHIGAN

Notes To Financial Statements

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Both the government-wide and proprietary fund financial statements of the City follow private-sector standards of accounting and financial reported issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payment-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

1-D. Assets, Liabilities and Equity

Deposits and Investments

The City maintains separate cash accounts for each of the City's funds and are displayed on the statement of net assets/balance sheet as "cash and cash equivalents". The cash resources of the Employees Retirement System are invested separately.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments. The State's Pension Investment Act, as amended, authorizes the pension trust fund, to invest in common stocks, real estate, and various other investment instruments, subject to certain limitations.

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts, which reasonably approximates fair value.

CITY OF NEW BALTIMORE, MICHIGAN

Notes To Financial Statements

Unrealized appreciation or depreciation on pension trust fund investments due to changes in fair value are recognized each year.

Receivables and Payables

All trade and delinquent property tax receivables are shown net of an allowance for uncollectibles, as applicable.

All outstanding balances between funds are reported as *due to/from other funds*. Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as *internal balances*.

Inventories, Prepaid Items and Other Assets

All inventories are valued at cost using the first-in/first-out method. Generally, inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual or predefined group cost of more than \$35,000 for infrastructure assets and \$5,000 for all other capital assets with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

CITY OF NEW BALTIMORE, MICHIGAN

Notes To Financial Statements

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and building improvements	20-50
Public domain infrastructure	20-50
Water and wastewater system infrastructure	50
Vehicles and equipment	5-25
Library books	5

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused sick and leave time benefits, subject to certain limitations. All sick and leave pay is accrued at 100% in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Fund balance designations represent tentative management plans that are subject to change.

CITY OF NEW BALTIMORE, MICHIGAN

Notes To Financial Statements

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

2-A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at year end, except for those approved by the City Council for carry forward. The legal level of budgetary control is the activity level for the general fund and the fund level for special revenue funds.

The City Council requires management to submit an estimate of revenues and anticipated expenditures for the succeeding fiscal year in June. The management is then authorized to assign and transfer budget amounts within each fund to the extent that the net total fund appropriation (which the City defines as gross authorized expenditures less related revenues that are specifically designated to fund those activities) is not exceeded. City Council approval is required for any budgetary changes that result in an increase to net appropriations.

Formal budgetary integration is employed as a management control during the year. Supplemental appropriations were approved by the City Council in the form of budget amendment resolutions or as part of special authorizing motions for grants, bonds or notes, the total of which was not significant in relation to the original budget appropriation valuation.

2-B. Excess of Expenditures Over Appropriations

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2004, the City incurred expenditures in excess of the amounts appropriated as follows:

	Final Budget	Actual	Variance
General Fund Activity:			
Engineering	\$ 70,281	\$ 71,827	\$ 1,546
Police	1,725,795	1,728,136	2,341
Rubbish collection	392,017	399,251	7,234
Community promotion	92,296	93,319	1,023
Local streets fund	268,783	2,244,357	1,975,574
Major streets fund	155,783	165,990	10,207
Building inspection	307,690	349,337	41,647

CITY OF NEW BALTIMORE, MICHIGAN

Notes To Financial Statements

NOTE 3 – DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

3-A. Deposits, Investments and Securities Lending

Summary of Deposit and Investment Balances. Following is a reconciliation of deposit and investment balances as of June 30, 2004:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Total</u>
Statement of Net Assets			
Cash and cash equivalents	\$ 4,094,010	\$ 315,156	\$ 4,409,166
Investments	7,470,011	-	7,470,011
Restricted cash and investments	213,837	-	213,837
Statement of Fiduciary Net Assets			
Cash and cash equivalents	13,399	-	13,399
Investments	5,393,346	-	5,393,346
Total	<u>\$ 17,184,603</u>	<u>\$ 315,156</u>	<u>\$ 17,499,759</u>

Deposits and Investments

Bank deposits (checking accounts, savings accounts and CDs)	\$ 8,157,754
Investments in mutual funds and similar vehicles	9,153,396
Cash held by fiscal agent	188,609
Total	<u>\$ 17,499,759</u>

Deposits. At year-end, the carrying amount of deposits was \$8,157,754. The bank balance was \$8,216,936. Of the bank balance, \$600,000 was covered by federal depository insurance, and \$7,616,936 was uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits at all times. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments. The City's investments have been classified into the following three categories of credit risk: (1) insured or registered, or securities held by the government or its agent in the government's name; (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name; or (3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

CITY OF NEW BALTIMORE, MICHIGAN

Notes To Financial Statements

The following schedule classifies the City's investments as of June 30, 2004, into the above noted categories:

	Category			Uncategorized	Carrying Amount (Fair Value)
	<u>1</u>	<u>2</u>	<u>3</u>		
Mutual and cash management funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,153,396</u>	<u>\$ 9,153,396</u>

Mutual and cash management funds are registered with the SEC. The Michigan Banking Act regulates these bank investment pools. The fair value of the position in the bank investment pools is the same as the value of the pool shares. The bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in these funds comply with the investment authority noted above.

3-B. Receivables

Receivables in the governmental activities are 67.5 percent due from other governments, 17.8 percent accounts receivables, 14.2 percent taxes and special assessments and 0.5 percent accrued interest. Business-type activities receivables are 93.5 percent due from customers, 4.9 percent due from special assessments and 1.6 percent accrued interest.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Personal property taxes and special assessments not yet received	<u>\$ 119,613</u>	<u>\$ -</u>	<u>\$ 119,613</u>

CITY OF NEW BALTIMORE, MICHIGAN

Notes To Financial Statements

3-C. Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

Primary government

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities					
Capital assets, not being depreciated -					
Land	\$ 4,264,914	\$ 228,287	\$ -	\$ -	\$ 4,493,201
Construction in progress	96,081	91,204	-	(79,197)	108,088
Total capital assets not being depreciated	<u>4,360,995</u>	<u>319,491</u>	<u>-</u>	<u>(79,197)</u>	<u>4,601,289</u>
Capital assets being depreciated:					
Land improvements	829,420	93,967	-	-	923,387
Buildings	603,150	40,800	-	-	643,950
Vehicles and equipment	2,879,205	90,275	-	-	2,969,480
Library books	703,116	44,909	(471,155)	-	276,870
Infrastructure	19,068,115	2,346,743	-	79,197	21,494,055
Total capital assets being depreciated	<u>24,083,006</u>	<u>2,616,694</u>	<u>(471,155)</u>	<u>79,197</u>	<u>26,307,742</u>
Less accumulated depreciation for					
Land improvements	(487,598)	(37,954)	-	-	(525,552)
Buildings	(333,215)	(15,982)	-	-	(349,197)
Vehicles and equipment	(1,844,556)	(254,140)	-	-	(2,098,696)
Library books	(573,764)	(47,007)	471,155	-	(149,616)
Infrastructure	(3,839,709)	(809,841)	-	-	(4,649,550)
Total accumulated depreciation	<u>(7,078,842)</u>	<u>(1,164,924)</u>	<u>471,155</u>	<u>-</u>	<u>(7,772,611)</u>
Total capital assets being depreciated, net	<u>17,004,164</u>	<u>1,451,770</u>	<u>-</u>	<u>79,197</u>	<u>18,535,131</u>
Governmental activities capital assets, net	<u>\$ 21,365,159</u>	<u>\$ 1,727,353</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,136,420</u>

CITY OF NEW BALTIMORE, MICHIGAN

Notes To Financial Statements

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type activities					
Capital assets, not being depreciated -					
Land	\$ 886,147	\$ -	\$ -	\$ -	\$ 886,147
Construction in progress	44,522	300,030	-	(44,522)	300,030
Total capital assets not being depreciated	930,669	300,030	-	(44,522)	1,186,177
Capital assets, being depreciated:					
Land improvements	412,000	-	-	-	412,000
Buildings	11,575,025	8,716	-	-	11,583,741
Equipment	387,535	265,455	(3,564)	-	649,426
Infrastructure	24,576,821	3,393,691	(149,976)	44,522	27,865,058
Total capital assets being depreciated	36,951,381	3,667,862	(153,540)	44,522	40,510,225
Less accumulated depreciation for					
Land improvements	(287,350)	(8,900)	-	-	(296,250)
Buildings	(4,910,141)	(228,680)	-	-	(5,138,821)
Equipment	(139,551)	(31,041)	3,564	-	(167,028)
Infrastructure	(5,860,797)	(528,799)	149,976	-	(6,239,620)
Total accumulated depreciation	(11,197,839)	(797,420)	153,540	-	(11,841,719)
Total capital assets being depreciated, net	25,753,542	2,870,442	-	44,522	28,668,506
Business-type activities capital assets, net	<u>\$ 26,684,211</u>	<u>\$ 3,170,472</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,854,683</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	\$ 19,521
Public safety	176,940
Public works	1,809
Highways and streets	809,841
Recreation and culture	95,617
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	61,196
Total depreciation expense - governmental activities	<u>\$ 1,164,924</u>
Business-type activities	
Water fund	\$ 291,941
Sewer fund	433,720
Storm Water fund	71,759
	<u>\$ 797,420</u>

CITY OF NEW BALTIMORE, MICHIGAN

Notes To Financial Statements

Discretely presented component units

Activity for the Downtown Development Authority for the year ended June 20, 2004, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated for Infrastructure	\$ 460,345	\$ -	\$ -	\$ 460,345
				(119,690)
Less accumulated depreciation for Infrastructure	(101,276)	(18,414)	-	
Component unit activity capital assets, net	<u>\$ 359,069</u>	<u>\$ (18,414)</u>	<u>\$ -</u>	<u>\$ 340,655</u>

3-D. Interfund Receivables, Payables, Transfers and Advances

At June 30, 2004, the following schedule reports receivables and payables within the reporting entity.

Due to	Due From							Total
	General Fund	Local Streets	Non-Major Governmental	Water	Sewer	Storm Water	Internal Service	
General fund	\$ -	\$ -	\$ 185	\$ 6,358	\$ -	\$ 1,667	\$ -	\$ 8,210
Non-major governmental	145,435	-	-	79,635	-	436,730	-	661,800
Water fund	12,425	-	-	-	1,768	858	-	15,051
Sewer fund	7,058	-	-	22,316	-	1,619	-	30,993
Internal service	30,033	9,430	13,208	13,828	9,315	6,734	3,634	86,182
Total	<u>\$ 194,951</u>	<u>\$ 9,430</u>	<u>\$ 13,393</u>	<u>\$ 122,137</u>	<u>\$ 11,083</u>	<u>\$ 447,608</u>	<u>\$ 3,634</u>	<u>\$ 802,236</u>

Also, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of the Internal Service Fund.

The Water and Sewer funds each advanced the General fund proceeds for the purchase of a new fire truck during the 2000 fiscal year. The terms of the advance call for semi-annual payments of \$9,621 for each advance, plus interest at a rate of 1% over the applicable Consumer Price Index (CPI). The advances will be fully matured in the fiscal year ending June 30, 2015. The following amounts are currently outstanding:

Advanced from	Advanced To General Fund
Water fund	\$ 202,037
Sewer fund	202,037
Total	<u>\$ 404,074</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the

CITY OF NEW BALTIMORE, MICHIGAN

Notes To Financial Statements

funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year then ended, interfund transfers consisted of the following:

Transfer out	Transfer In					Total
	Local Streets	1993 Debt Service	Non-Major Governmental	Storm Water	Internal Service	
General fund	\$ 40,000	\$ -	\$ 370,000	\$ -	\$ 116,784	\$ 526,784
Non-major governmental	104,439	-	15,000	34,007	-	153,446
Water fund	-	1,781,151	-	-	-	1,781,151
Sewer fund	-	-	-	336,942	-	336,942
Total	<u>\$ 144,439</u>	<u>\$ 1,781,151</u>	<u>\$ 385,000</u>	<u>\$ 370,949</u>	<u>\$ 116,784</u>	<u>\$ 2,798,323</u>

3-E. Long-term Debt

General obligation bonds. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. The original amount of general obligation bonds issued in prior years for the items listed below for the primary government were \$9,120,000 to finance the repair and/or reconstruction of infrastructure assets of the City.

<u>General Obligations Bonds</u>	<u>Interest Rate</u>	<u>Amount</u>
Governmental activities		
1999 unlimited tax obligations	4.0% - 5.5%	\$ 1,725,000
2001 unlimited tax obligations	4.0% - 6.0%	2,825,000
2002 unlimited tax obligations	4.0% - 5.1%	995,000
		<u>\$ 5,545,000</u>

Special assessment bonds. The City also issued \$2,000,000 and \$1,200,000 of special assessment debt in prior years for the construction of residential developments and sewer improvements. These bonds will be repaid from amounts levied against the property owners benefited by this construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time of debt service payment is due, the government must provide resources to cover the deficiency until other resources are received.

<u>Special Assessment Bonds</u>	<u>Interest Rate</u>	<u>Amount</u>
Governmental activities		
1996 St. Clair Drive	5.9 - 6.0%	\$ 732,000
Business-type activities		
1995 Sewer improvements	5.4%	125,000
		<u>\$ 857,000</u>

CITY OF NEW BALTIMORE, MICHIGAN

Notes To Financial Statements

Annual debt service requirements to maturity for general obligation bonds are as follows:

<i>Governmental Activities</i>		
	Principal	Interest and Premium
2005	\$ 170,000	\$ 258,227
2006	225,000	249,365
2007	225,000	238,365
2008	225,000	227,365
2009	250,000	218,365
2010-2014	1,550,000	913,700
2014-2019	2,050,000	506,525
2020-2022	850,000	74,368
	<u>\$ 5,545,000</u>	<u>\$ 2,686,280</u>

Annual debt service requirements to maturity for special assessment obligation bonds are as follows:

	<i>Governmental Activities</i>		<i>Business-type Activities</i>	
	Principal	Interest and Premium	Principal	Interest and Premium
2005	\$ 230,000	\$ 36,249	\$ 125,000	\$ 6,875
2006	244,000	22,325		
2007	258,000	7,579		
	<u>\$ 732,000</u>	<u>\$ 66,153</u>	<u>\$ 125,000</u>	<u>\$ 6,875</u>

Component Unit. During the current fiscal year, the Downtown Development Authority secured a loan in the amount of \$189,772 with a fixed interest rate of 4.260% for defeasance of outstanding tax increment revenue bonds with an average interest rate of 5.5%. The transaction resulted in a reduction of future cash flows by \$35,386.

Annual debt service requirements on the component unit loan is as follows:

<i>Component Unit</i>		
	Principal	Interest and Premium
2005	\$ 16,272	\$ 7,503
2006	18,441	5,334
2007	19,237	4,538
2008	20,068	3,707
2009	20,927	2,848
2010-2014	44,827	2,937
	<u>\$ 139,772</u>	<u>\$ 26,867</u>

CITY OF NEW BALTIMORE, MICHIGAN

Notes To Financial Statements

Changes in Long-Term Debt. Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Primary Government</u>					
Governmental activities:					
General obligation bonds	\$ 7,745,000	\$ -	\$ (2,200,000)	\$ 5,545,000	\$ 170,000
Special assessment bonds	949,000	-	(217,000)	732,000	230,000
Accrued compensated absences	96,324	-	(2,077)	94,247	-
Total governmental activities	<u>\$ 8,790,324</u>	<u>\$ -</u>	<u>\$ (2,419,077)</u>	<u>\$ 6,371,247</u>	<u>\$ 400,000</u>
Business-type activities					
Special assessment bonds	<u>\$ 250,000</u>	<u>\$ -</u>	<u>\$ (125,000)</u>	<u>\$ 125,000</u>	<u>\$ 125,000</u>
<u>Component Units</u>					
Bond defeasance bank loan	<u>\$ 189,772</u>	<u>\$ 189,772</u>	<u>\$ (239,772)</u>	<u>\$ 139,772</u>	<u>\$ 16,272</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

3-F. Segment Information – Enterprise Funds

The Water, Sewer and Storm Water Funds, are individual funds that account entirely for the government's water, wastewater, and storm water drainage activities. These funds are a segment and are reported as major funds in the fund financial statements; therefore, segment disclosures herein are not required.

3-G. Reserves, Designations and Restrictions of Fund Balance and Net Assets

Reserves Reserved fund balances are legal restrictions on fund balance imposed by sources outside the City, which typically involve donor restrictions for specific purposes on City financial resource.

Designations Designated fund balances are restrictions imposed by the City on the use of fund balance for specific purposes.

Restricted Net Assets Restricted net assets on the Statement of Net Assets are similar to reserved fund balance in that a portion of net assets are legally restricted for a specific purpose as imposed by sources outside of the City.

CITY OF NEW BALTIMORE, MICHIGAN

Notes To Financial Statements

The schedule of reserved, designated and restricted fund balance and net assets is as follows:

	<u>Restricted</u>
Business-type activities:	
Maintained with paying agent for future debt service	<u>\$ 213,837</u>

NOTE 4 – OTHER INFORMATION

4-A. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries and illnesses of employees; and natural disasters. The City is a member of the Michigan Municipal League sponsored self-insurance/public entity risk pool for general liability and property insurance; and the Michigan Municipal Workers Compensation Fund. The City pays annual premiums to the respective pools that is based on City's experience rating. The agreements for the formation of the Michigan Municipal Liability and Property Fund and the Michigan Municipal Workers' Compensation fund provide that the pools will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of limitations imposed by the pool.

General Liability and Property. The Michigan Municipal Liability and Property Fund provides coverage of up to \$10 million per occurrence for general, public officials, law enforcement and automobile claims. Property coverage is by classification ranging between \$19 thousand to \$21 million in claims with a deductible of \$1 thousand dollars.

Workers' Compensation. The Michigan Municipal Workers' Compensation Fund provides coverage of all claims incurred up to a maximum of \$500 thousand per occurrence.

Insurance settlements have not exceed insurance coverage for either fund in any of the past three years. As such, no accrual for incurred but not reported claims has been established. The Michigan Municipal Liability and Property Fund and the Michigan Municipal Workers' Compensation Fund have published their own financial reports, which can be obtained by contacting the management of each pool.

4-B. Property Taxes

The government's property taxes are levied each July 1st on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest if paid in full by September 15th. As of March 1st of the succeeding year, unpaid real property taxes are sold to and collected by Macomb County. Assessed values, as established annually by the government and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the City for the 2003 levy, including industrial facilities was \$328,701,115. The government's general operating tax rate for fiscal 2003-04 was 10.2251 mills with an additional 1.3988 mills for the library, and 2.1506 for City debt.

CITY OF NEW BALTIMORE, MICHIGAN

Notes To Financial Statements

Property taxes for the DDA (Downtown Development Authority) are derived from tax increment financing agreements with the various applicable taxing authorities. Under these arrangements, the DDA receives the property taxes levied on the increment of current taxable values over the base year values on those properties located within the established tax increment financing district.

Property taxes are recognized in the fiscal year in which they are levied.

4-C. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and potential adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

4-D. Postemployment Benefits

New Baltimore Employees Retirement System

Plan Description

The City of New Baltimore Retirement System is a single-employer defined benefit pension plan administered by the City that covers all full-time municipal employees. The requirements of the State Constitution and the City Charter assign the authority to establish and amend benefit provisions of the plan to the Board of Trustees. A separate financial statement of the Plan has not been issued.

Summary of Significant Accounting Policies

The City of New Baltimore Retirement System financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Contributions

Plan members are required to contribute 5% of their annual covered salary. The City is required to contribute an actuarially determined rate, the current rate is 11.17% of annual covered payroll. Contribution requirements of the plan members and the City are established and may be amended by the Board of Trustees. Administrative costs of the system are financed through investment earnings.

CITY OF NEW BALTIMORE, MICHIGAN

Notes To Financial Statements

Membership of the retirement system consisted of the following at June 30, 2003, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	20
Active and inactive members	<u>62</u>
Total	<u>82</u>

Annual Pension Cost

The City's annual pension cost and net pension obligation to the City of New Baltimore Employee's Retirement System for the current year were as follows:

Annual required contribution/pension cost	\$ 273,144
Contribution made	<u>(273,144)</u>
Increase in net pension obligation	-
Net pension obligation, beginning of year	<u>-</u>
Net pension obligation, end of year	<u>\$ -</u>

Three-Year Trend Information			
Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2002	\$ 193,539	100 %	\$ -
June 30, 2003	235,757	100	-
June 30, 2004	273,144	100	-

Actuarial Methods and Assumptions

Valuation Date	June 30, 2003
Actuarial Cost Method	Entry age
Amortization method	Level
Remaining Amortization Period	Scheduled
Assets Valuation Method	
Smoothed Market	4 years
Actuarial Assumptions:	
Investment Rate of Return	7.0%
Additional Projected Salary increase	5.0 – 8.0%
Assumed payroll growth	5.0%
Cost of Living Adjustment	N.A

CITY OF NEW BALTIMORE, MICHIGAN

Notes To Financial Statements

Other Postemployment Benefits

The City also provides postemployment health care benefits, as per the requirements of certain agreements and union contracts for certain retirees and their dependents. The City currently has 7 retirees participating in the plan. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with a 25% contribution required from retirees. The City purchases Medicare supplemental insurance for retirees eligible for Medicare, with no contribution required from the retiree and a 25% contribution from dependents. The City maintains a Retiree Health Care Fund to accumulate, invest and purchase insurance premiums for retirees. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due. During the current fiscal year, expenditures amounted to approximately \$77,163 with City and employee contributions totaling \$122,664 and \$8,982, respectively. Benefits under the Plan are administered under a third party agreement with Blue Cross Blue Shield of Michigan. The Mayor and City Council has the authority to establish and amend benefit provisions.

4-E. Restatements

As of and for the year ended June 30, 2004, the City implemented the following Governmental Accounting Standards Board pronouncements:

Statements

- No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*
- No. 37 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*
- No. 38 – *Certain Financial Statement Note Disclosures*

Interpretation

- No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments.

The more significant of the changes required by the new standards include:

- Management’s discussion and analysis;
- Basic financial statements that include:
 - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
 - Fund financial statements, consisting of a series of statements that focus on a government’s major governmental funds and enterprise funds;

CITY OF NEW BALTIMORE, MICHIGAN

Notes To Financial Statements

- Schedules to reconcile the fund financial statements to the government-wide financial statements;
- Notes to the basic financial statements;
- Required supplementary information.

As a result of implementing these pronouncements for the fiscal year ended June 30, 2004, the following restatements were made to beginning fund balance and net asset accounts:

Government-wide financial statements. Beginning net assets for governmental activities was determined as follows:

Fund balances of all governmental funds as of 6/30/03	\$ 5,601,206
Prior period adjustments to fund balances:	
General fund:	
Add: Understatement of Ordinance fines receivable from Macomb County and performance bonds payable	16,163
Add: Change in accounting principle regarding recognition of state shared revenue	124,357
Street reconstruction fund:	
Add: understatement of amount due from water fund	28,860
Add: understatement of amount due from sewer fund	136,135
Fund balances of all governmental funds at 6/30/03, as restated	5,906,721
Add: governmental capital assets, including general fixed assets and infrastructure as of 6/30/03	27,117,539
Deduct: accumulated depreciation as of 6/30/03 on above governmental capital assets	(6,289,620)
Add: governmental internal service funds net assets as of 6/30/03	810,840
Add: deferred revenue on taxes receivable as of 6/30/03	131,158
Deduct: general obligation bonds, and loans payable as of 6/30/03 (net of bond premiums and accrued interest)	(8,561,468)
Deduct: governmental compensated absences payable as of 6/30/03	(96,324)
Governmental net assets, restated, as of 7/1/03	\$ 19,018,846

CITY OF NEW BALTIMORE, MICHIGAN

Notes To Financial Statements

The beginning net assets of the enterprise funds were derived by aggregating the previously reported retained earnings and contributed capital of those funds and adjusted for internal service fund activities as follows:

Retained earnings and contributed capital as of 6/30/03	\$ 33,066,754
Water fund:	
Deduct: overstatement of amount due from Anchor Bay School District	(19,200)
Deduct: overstatement of capital assets	(68,531)
Deduct: understatement of amount due to Road Construction Fund	(28,860)
Deduct: net change in capital assets from change in capitalization policy	(109,174)
Sewer fund:	
Add: understatement of net capital assets	122,390
Deduct: overstatement of amount due from Anchor Bay School District	(13,500)
Deduct: net change in capital assets from change in capitalization policy	(36,143)
Storm water fund:	
Add: understatement of contributed infrastructure from Macomb County bond	1,071,000
Deduct: overstatement of net capital assets	(1,361)
Add: amounts due from governmental activities related to internal service funds as of 6/30/03	421,009
Business-type activity net assets, restated, as of 7/1/03	<u><u>\$ 34,404,384</u></u>

Beginning net assets for the component units was determined as follows:

Fund balance of 6/30/03	\$ 201,500
Add: capital assets, including general fixed assets net of accumulated depreciation 6/30/03	359,069
Deduct: long-term tax increment revenue bonds as of 6/30/03	(189,772)
Component unit net assets, restated, as of 7/1/03	<u><u>\$ 370,797</u></u>

* * * * *

***REQUIRED SUPPLEMENTARY
INFORMATION***

CITY OF NEW BALTIMORE, MICHIGAN

Required Supplementary Information (Unaudited)

Defined Benefit Pension Trust - New Baltimore Employees Retirement System

Trend Information

Schedule of Funding Progress (in thousands)						
Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Attained Age# (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio % (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a) / c)
1998	\$ 3,307	\$ 3,754	\$ 447	\$ 88.1	\$ 1,534	29.1 %
1999	3,821	4,219	398	90.6	1,550	25.7
2000	4,230	4,845	615	87.3	1,784	34.4
2001	4,625	5,425	800	85.2	2,108	38.0
2002	4,928	5,890	962	83.7	2,300	41.8
2003	5,215	6,517	1,302	80.0	2,525	51.5

***COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES***

City of New Baltimore, Michigan

Combining Balance Sheet Non-Major Governmental Funds June 30, 2004

	Special Revenue			
	Major Streets	Street Reconstruction	Cemetery Operating	Cemetery Land
Assets				
Cash and cash equivalents	\$ 106,894	\$ 51,688	\$ 11,067	\$ 4,053
Receivables:				
Accounts receivable	-	-	-	-
Taxes receivable	-	-	-	-
Special assessments	-	-	-	-
Interest receivable	151	-	-	-
Due from other funds	-	516,365	-	-
Due from other governments	49,415	-	-	-
Investments	100,000	401,127	-	83,423
Prepaid expenditures	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 256,460</u>	<u>\$ 969,180</u>	<u>\$ 11,067</u>	<u>\$ 87,476</u>
Liabilities				
Accounts payable	\$ 445	\$ 7,455	\$ 30	\$ -
Due to other funds	6,369	-	6,635	-
Accrued liabilities	-	-	-	-
Deferred revenue	67	-	-	-
	<u>6,881</u>	<u>7,455</u>	<u>6,665</u>	<u>-</u>
Total liabilities	<u>6,881</u>	<u>7,455</u>	<u>6,665</u>	<u>-</u>
Fund balance:				
Reserved:				
Debt service	-	-	-	-
Prepays	-	-	-	-
Perpetual care	-	-	-	-
Unreserved, undesignated	249,579	961,725	4,402	87,476
	<u>249,579</u>	<u>961,725</u>	<u>4,402</u>	<u>87,476</u>
Total fund balances	<u>249,579</u>	<u>961,725</u>	<u>4,402</u>	<u>87,476</u>
Total liabilities and fund balance	<u>\$ 256,460</u>	<u>\$ 969,180</u>	<u>\$ 11,067</u>	<u>\$ 87,476</u>

Special Revenue				
Library	Building Inspection	Public Improvement	Drug Law Enforcement	Burke Estate
\$ 25,614	\$ 224,158	\$ 357,429	\$ 13,527	\$ 24,579
-	-	106	-	-
3,154	-	-	-	-
-	-	-	-	-
222	333	539	-	-
-	435	145,000	-	-
227	-	-	-	-
370,067	70,731	579,169	-	-
1,036	1,779	-	-	-
<u>\$ 400,320</u>	<u>\$ 297,436</u>	<u>\$ 1,082,243</u>	<u>\$ 13,527</u>	<u>\$ 24,579</u>
\$ 5,780	\$ 11,298	\$ 2,808	\$ 114	\$ -
185	204	-	-	-
1,913	1,647	-	-	-
3,211	27	33	-	-
<u>11,089</u>	<u>13,176</u>	<u>2,841</u>	<u>114</u>	<u>-</u>
-	-	-	-	-
1,036	1,779	-	-	-
-	-	-	-	-
388,195	282,481	1,079,402	13,413	24,579
<u>389,231</u>	<u>284,260</u>	<u>1,079,402</u>	<u>13,413</u>	<u>24,579</u>
<u>\$ 400,320</u>	<u>\$ 297,436</u>	<u>\$ 1,082,243</u>	<u>\$ 13,527</u>	<u>\$ 24,579</u>

Continued...

City of New Baltimore, Michigan
Combining Balance Sheet
Non-Major Governmental Funds (Concluded)
June 30, 2004

	<u>Permanent Fund</u>	<u>Debt Service</u>		
		1996		
	Perpetual	St. Clair Dr.	1978	1999
	Care	Special	Drainage	Unlimited
		Assessment	District	Tax
Assets				
Cash and cash equivalents	\$ 9,861	\$ 71,024	\$ 2,233	\$ 56,549
Receivables:				
Accounts receivable	-	-	-	-
Taxes receivable	-	-	-	1,156
Special assessments	-	39,021	-	-
Interest receivable	-	138	-	109
Due from other funds	-	-	-	-
Due from other governments	-	-	68	38
Investments	234,870	614,846	-	-
Prepaid expenditures	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total assets	 <u>\$ 244,731</u>	 <u>\$ 725,029</u>	 <u>\$ 2,301</u>	 <u>\$ 57,852</u>
 Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-
Accrued liabilities	-	-	-	-
Deferred revenue	-	39,021	-	1,156
	<u>-</u>	<u>39,021</u>	<u>-</u>	<u>1,156</u>
Total liabilities	<u>-</u>	<u>39,021</u>	<u>-</u>	<u>1,156</u>
 Fund balance:				
Reserved:				
Debt service	-	686,008	2,301	56,696
Prepays	-	-	-	-
Perpetual care	66,696	-	-	-
Unreserved, undesignated	178,035	-	-	-
	<u>244,731</u>	<u>686,008</u>	<u>2,301</u>	<u>56,696</u>
 Total liabilities and fund balance	 <u>\$ 244,731</u>	 <u>\$ 725,029</u>	 <u>\$ 2,301</u>	 <u>\$ 57,852</u>

Debt Service		
2001 Unlimited Tax	2002 Unlimited Tax	Total
\$ 41,421	\$ 23,645	\$ 1,023,742
-	-	106
1,472	683	6,465
-	-	39,021
79	41	1,612
-	-	661,800
52	13	49,813
-	-	2,454,233
-	-	2,815
<u>\$ 43,024</u>	<u>\$ 24,382</u>	<u>\$ 4,239,607</u>
\$ -	\$ -	\$ 27,930
-	-	13,393
-	-	3,560
1,472	683	45,670
<u>1,472</u>	<u>683</u>	<u>90,553</u>
41,552	23,699	810,256
-	-	2,815
-	-	66,696
-	-	3,269,287
<u>41,552</u>	<u>23,699</u>	<u>4,149,054</u>
<u>\$ 43,024</u>	<u>\$ 24,382</u>	<u>\$ 4,239,607</u>

City of New Baltimore, Michigan
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended June 30, 2004

	Special Revenue			
	Major Streets	Street Reconstruction	Cemetery Operating	Cemetery Land
Revenues				
Property taxes	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-
Licenses and permits	-	-	-	-
Federal grants and reimbursements	-	-	-	-
State grants and reimbursements	290,928	-	-	-
Charges for services	-	-	13,670	-
Fines and forfeitures	-	-	-	-
Contributions	-	-	-	-
Investment earnings	2,135	8,094	201	1,547
Other	-	54,775	-	-
Total revenues	<u>293,063</u>	<u>62,869</u>	<u>13,871</u>	<u>1,547</u>
Expenditures				
Current:				
General government	-	-	53,833	-
Public safety	-	-	-	-
Highways and streets	165,990	56,427	-	-
Community development	-	-	-	-
Recreation and culture	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Capital outlay	-	606,323	-	-
Total expenditures	<u>165,990</u>	<u>662,750</u>	<u>53,833</u>	<u>-</u>
Revenues over (under) expenditures	<u>127,073</u>	<u>(599,881)</u>	<u>(39,962)</u>	<u>1,547</u>
Other financing sources (uses)				
Transfers in	-	-	40,000	-
Transfers out	(104,439)	-	-	-
Total other financing sources (uses)	<u>(104,439)</u>	<u>-</u>	<u>40,000</u>	<u>-</u>
Net change in fund balances	22,634	(599,881)	38	1,547
Fund balances, beginning of year, as restated	<u>226,945</u>	<u>1,561,606</u>	<u>4,364</u>	<u>85,929</u>
Fund balances, end of year	<u>\$ 249,579</u>	<u>\$ 961,725</u>	<u>\$ 4,402</u>	<u>\$ 87,476</u>

Special Revenue				
Library	Building Inspection	Public Improvements	Drug Law Enforcement	Burke Estate
\$ 450,841	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	423,598	-	-	-
-	-	75,173	-	-
8,998	-	-	-	-
3,776	20	-	-	-
3,542	2,750	-	922	-
15,421	-	-	-	-
8,434	3,518	11,683	103	222
6,087	-	-	-	-
497,099	429,886	86,856	1,025	222
-	-	-	-	-
-	349,337	-	6,304	-
-	-	-	-	-
-	-	101,821	-	-
346,424	-	-	-	-
-	-	-	-	-
-	-	-	-	-
85,709	-	140,333	-	-
432,133	349,337	242,154	6,304	-
64,966	80,549	(155,298)	(5,279)	222
-	-	345,000	-	-
-	-	-	-	-
-	-	345,000	-	-
64,966	80,549	189,702	(5,279)	222
324,265	203,711	889,700	18,692	24,357
\$ 389,231	\$ 284,260	\$ 1,079,402	\$ 13,413	\$ 24,579

Continued...

City of New Baltimore, Michigan
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Non-Major Governmental Funds (Concluded)
For the Year Ended June 30, 2004

	Permanent Fund	Debt Service	
		1996	
	Perpetual Care	St. Clair Dr. Special Assessment	1978 Drainage District
Revenues			
Property taxes	\$ -	\$ -	\$ 239
Special assessments	-	52,997	-
Licenses and permits	-	-	-
Federal grants and reimbursements	-	-	-
State grants and reimbursements	-	-	-
Charges for services	16,000	-	-
Fines and forfeitures	-	-	-
Contributions	-	-	-
Investment earnings	3,361	15,975	19
Other	-	-	-
Total revenues	<u>19,361</u>	<u>68,972</u>	<u>258</u>
Expenditures			
Current:			
General government	-	-	-
Public safety	-	-	-
Highways and streets	-	-	-
Community development	-	-	-
Recreation and culture	-	-	-
Debt service:			
Principal	-	217,000	-
Interest	-	49,514	-
Capital outlay	-	-	-
Total expenditures	<u>-</u>	<u>266,514</u>	<u>-</u>
Revenues over (under) expenditures	<u>19,361</u>	<u>(197,542)</u>	<u>258</u>
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	(15,000)	-	(34,007)
Total other financing sources (uses)	<u>(15,000)</u>	<u>-</u>	<u>(34,007)</u>
Net change in fund balances	4,361	(197,542)	(33,749)
Fund balances, beginning of year, as restated	<u>240,370</u>	<u>883,550</u>	<u>36,050</u>
Fund balances, end of year	<u><u>\$ 244,731</u></u>	<u><u>\$ 686,008</u></u>	<u><u>\$ 2,301</u></u>

Debt Service			
1999 Unlimited Tax	2001 Unlimited Tax	2002 Unlimited Tax	Total
\$ 176,342	\$ 234,145	\$ 52,942	\$ 914,509
-	-	-	52,997
-	-	-	423,598
-	-	-	75,173
-	-	-	299,926
-	-	-	33,466
-	-	-	7,214
-	-	-	15,421
1,346	1,215	396	58,249
-	-	-	60,862
<u>177,688</u>	<u>235,360</u>	<u>53,338</u>	<u>1,941,415</u>
-	-	-	53,833
-	-	-	355,641
-	-	-	222,417
-	-	-	101,821
-	-	-	346,424
75,000	75,000	-	367,000
79,888	137,130	47,488	314,020
-	-	-	832,365
<u>154,888</u>	<u>212,130</u>	<u>47,488</u>	<u>2,593,521</u>
<u>22,800</u>	<u>23,230</u>	<u>5,850</u>	<u>(652,106)</u>
-	-	-	385,000
-	-	-	(153,446)
-	-	-	231,554
22,800	23,230	5,850	(420,552)
<u>33,896</u>	<u>18,322</u>	<u>17,849</u>	<u>4,569,606</u>
<u>\$ 56,696</u>	<u>\$ 41,552</u>	<u>\$ 23,699</u>	<u>\$ 4,149,054</u>

City of New Baltimore, Michigan
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Major Streets
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
State grants and reimbursements	\$ 258,522	\$ 258,522	\$ 290,928	\$ 32,406
Investment earnings	3,200	3,200	2,135	(1,065)
Total revenues	261,722	261,722	293,063	31,341
Expenditures				
Street maintenance	65,283	65,283	51,033	14,250
Signs and markings	20,500	20,500	11,858	8,642
Snow removal	70,000	70,000	103,099	(33,099)
Total expenditures	155,783	155,783	165,990	(10,207)
Revenues over (under) expenditures	105,939	105,939	127,073	21,134
Other financing sources (uses)				
Transfers out	(104,439)	(104,439)	(104,439)	-
Net change in fund balances	1,500	1,500	22,634	21,134
Fund balance, beginning of year	226,945	226,945	226,945	-
Fund balance, end of year	\$ 228,445	\$ 228,445	\$ 249,579	\$ 21,134

City of New Baltimore, Michigan
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Street Reconstruction
For the Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Investment earnings	\$ 33,000	\$ 33,000	\$ 8,094	\$ (24,906)
Other	-	-	54,775	54,775
Total revenues	33,000	33,000	62,869	29,869
Expenditures				
Operating expenditures	-	-	56,427	(56,427)
Construction	1,150,000	1,150,000	606,323	543,677
Total expenditures	1,150,000	1,150,000	662,750	487,250
Net change in fund balances	(1,117,000)	(1,117,000)	(599,881)	517,119
Fund balance, beginning of year, as restated	1,561,606	1,561,606	1,561,606	-
Fund balance, end of year	\$ 444,606	\$ 444,606	\$ 961,725	\$ 517,119

City of New Baltimore, Michigan
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Cemetery Operating
For the Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for services	\$ 16,500	\$ 16,500	\$ 13,670	\$ (2,830)
Investment earnings	200	200	201	1
Total revenues	16,700	16,700	13,871	(2,829)
Expenditures				
Operating expenditures	56,650	56,650	53,833	2,817
Revenues over (under) expenditures	(39,950)	(39,950)	(39,962)	(12)
Other financing sources (uses)				
Transfers in	40,000	40,000	40,000	-
Net change in fund balances	50	50	38	(12)
Fund balance, beginning of year	4,364	4,364	4,364	-
Fund balance, end of year	<u>\$ 4,414</u>	<u>\$ 4,414</u>	<u>\$ 4,402</u>	<u>\$ (12)</u>

City of New Baltimore, Michigan
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Cemetery Land
For the Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Investment earnings	\$ 2,050	\$ 2,050	\$ 1,547	\$ (503)
Fund balance, beginning of year	<u>85,929</u>	<u>85,929</u>	<u>85,929</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 87,979</u></u>	<u><u>\$ 87,979</u></u>	<u><u>\$ 87,476</u></u>	<u><u>\$ (503)</u></u>

City of New Baltimore, Michigan
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Library
For the Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property taxes	\$ 461,387	\$ 461,387	\$ 450,841	\$ (10,546)
State aid	5,000	5,000	8,998	3,998
Fines and forfeitures	2,100	2,100	3,542	1,442
Charges for services	3,250	3,250	3,776	526
Donations	15,000	15,000	15,421	421
Interest earnings	6,350	6,350	8,434	2,084
Other	3,913	3,913	6,087	2,174
Total revenues	<u>497,000</u>	<u>497,000</u>	<u>497,099</u>	<u>99</u>
Expenditures				
Operating expenditures	423,593	423,593	346,424	77,169
Capital outlay	<u>69,000</u>	<u>69,000</u>	<u>85,709</u>	<u>(16,709)</u>
Total expenditures	<u>492,593</u>	<u>492,593</u>	<u>432,133</u>	<u>60,460</u>
Net change in fund balances	4,407	4,407	64,966	60,559
Fund balance, beginning of year	<u>324,265</u>	<u>324,265</u>	<u>324,265</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 328,672</u></u>	<u><u>\$ 328,672</u></u>	<u><u>\$ 389,231</u></u>	<u><u>\$ 60,559</u></u>

City of New Baltimore, Michigan
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Building Inspection
For the Year Ended June 30, 2004

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Positive
				(Negative)
Revenues				
Licenses and permits	\$ 244,135	\$ 244,135	\$ 423,598	\$ 179,463
Fines and forfeitures	-	-	2,750	2,750
Charges for services	-	-	20	20
Investment earnings	1,300	1,300	3,518	2,218
Total revenues	245,435	245,435	429,886	184,451
Expenditures				
Operating expenditures	307,690	307,690	349,337	(41,647)
Net change in fund balances	(62,255)	(62,255)	80,549	142,804
Fund balance, beginning of year	203,711	203,711	203,711	-
Fund balance, end of year	\$ 141,456	\$ 141,456	\$ 284,260	\$ 142,804

City of New Baltimore, Michigan
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Public Improvements
For the Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Federal revenue	\$ 122,800	\$ 122,800	\$ 75,173	\$ (47,627)
Investment earnings	7,500	7,500	11,683	4,183
Total revenues	130,300	130,300	86,856	(43,444)
Expenditures				
Operating expenditures	-	-	101,821	(101,821)
Capital outlay	285,916	285,916	140,333	145,583
Total expenditures	285,916	285,916	242,154	43,762
Revenues over (under) expenditures	(155,616)	(155,616)	(155,298)	318
Other financing sources (uses)				
Transfers in	200,000	200,000	345,000	145,000
Net change in fund balances	44,384	44,384	189,702	145,318
Fund balance, beginning of year	889,700	889,700	889,700	-
Fund balance, end of year	\$ 934,084	\$ 934,084	\$ 1,079,402	\$ 145,318

City of New Baltimore, Michigan
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Drug Law Enforcement
For the Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Fines and forfeitures	\$ 20,000	\$ 20,000	\$ 922	\$ (19,078)
Investment earnings	400	400	103	(297)
Total revenues	20,400	20,400	1,025	(19,375)
Expenditures				
Operating expenditures	20,075	20,075	6,304	13,771
Net change in fund balance	325	325	(5,279)	(5,604)
Fund balance, beginning of year	18,692	18,692	18,692	-
Fund balance, end of year	<u>\$ 19,017</u>	<u>\$ 19,017</u>	<u>\$ 13,413</u>	<u>\$ (5,604)</u>

City of New Baltimore, Michigan
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Burke Estate Fund
For the Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
Revenues				
Investment earnings	\$ 1,300	\$ 1,300	\$ 222	\$ (1,078)
Fund balance, beginning of year	<u>24,357</u>	<u>24,357</u>	<u>24,357</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 25,657</u></u>	<u><u>\$ 25,657</u></u>	<u><u>\$ 24,579</u></u>	<u><u>\$ (1,078)</u></u>

City of New Baltimore, Michigan
Combining Statement of Net Assets
Internal Service Funds
June 30, 2004

	<u>Equipment</u>	<u>Department of Public Service</u>	<u>Retiree Health Care</u>	<u>Total</u>
Assets				
Current assets:				
Cash and cash equivalents	\$ 275,517	\$ 5,745	\$ 19,791	\$ 301,053
Investments	182,442	-	403,272	585,714
Accounts receivable	1,068	2,588	-	3,656
Interest receivable	463	-	-	463
Due from other funds	35,982	50,200	-	86,182
Due from other governments	-	-	1,487	1,487
Prepaid expenses	1,263	10,417	5,415	17,095
Total current assets	<u>496,735</u>	<u>68,950</u>	<u>429,965</u>	<u>995,650</u>
Noncurrent assets:				
Capital assets, net of accumulated depreciation	<u>225,320</u>	<u>294,632</u>	<u>-</u>	<u>519,952</u>
Total assets	<u>722,055</u>	<u>363,582</u>	<u>429,965</u>	<u>1,515,602</u>
Liabilities				
Current liabilities:				
Accounts payable	1,957	888	500	3,345
Due to other funds	2,600	1,034	-	3,634
Accrued liabilities	3,235	49,994	-	53,229
Total current liabilities	<u>7,792</u>	<u>51,916</u>	<u>500</u>	<u>60,208</u>
Net Assets				
Investment in capital assets	225,320	294,632	-	519,952
Unrestricted	<u>488,943</u>	<u>17,034</u>	<u>429,465</u>	<u>935,442</u>
Total net assets	<u>\$ 714,263</u>	<u>\$ 311,666</u>	<u>\$ 429,465</u>	<u>\$ 1,455,394</u>

City of New Baltimore, Michigan
Combining Statement of Revenues, Expenses
and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2004

	Equipment	Department of Public Service	Retiree Health Care	Total
Operating revenues				
Charges for services	\$ 358,883	\$ 694,383	\$ -	\$ 1,053,266
Employer contributions	-	-	122,664	122,664
Employee contributions	-	-	8,982	8,982
Total operating revenues	<u>358,883</u>	<u>694,383</u>	<u>131,646</u>	<u>1,184,912</u>
Operating expenses				
Services	182,589	770,779	77,163	1,030,531
Depreciation	49,121	12,075	-	61,196
Total operating expenses	<u>231,710</u>	<u>782,854</u>	<u>77,163</u>	<u>1,091,727</u>
Operating income (loss)	<u>127,173</u>	<u>(88,471)</u>	<u>54,483</u>	<u>93,185</u>
Non-operating revenues				
Investment earnings	5,872	149	7,344	13,365
Appreciation in fair value of investments	-	-	19,166	19,166
Gain (loss) on sale of capital assets	<u>(18,467)</u>	<u>(488)</u>	<u>-</u>	<u>(18,955)</u>
Total non-operating revenues	<u>(12,595)</u>	<u>(339)</u>	<u>26,510</u>	<u>13,576</u>
Income before transfers	114,578	(88,810)	80,993	106,761
Transfers in	<u>-</u>	<u>116,784</u>	<u>-</u>	<u>116,784</u>
Change in net assets	114,578	27,974	80,993	223,545
Net assets, beginning of year	<u>599,685</u>	<u>283,692</u>	<u>348,472</u>	<u>1,231,849</u>
Net assets, end of year	<u>\$ 714,263</u>	<u>\$ 311,666</u>	<u>\$ 429,465</u>	<u>\$ 1,455,394</u>

City of New Baltimore, Michigan
Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2004

	<u>Equipment</u>	<u>Department of Public Service</u>	<u>Retiree Health Care</u>	<u>Total</u>
Cash flows from operating activities				
Cash received from interfund services	\$ 361,403	\$ 705,069	\$ 130,159	\$ 1,196,631
Cash payments to employees	(50,332)	(463,768)	-	(514,100)
Cash payments to suppliers for goods and services	(144,170)	(354,703)	(102,095)	(600,968)
Net cash provided (used) by operating activities	<u>166,901</u>	<u>(113,402)</u>	<u>28,064</u>	<u>81,563</u>
Cash flows from non-capital financing activities				
Transfers from other funds	<u>-</u>	<u>116,784</u>	<u>-</u>	<u>116,784</u>
Cash flows from capital and related financing activities				
Purchase of capital assets	<u>(41,889)</u>	<u>-</u>	<u>-</u>	<u>(41,889)</u>
Net cash (used) by capital and related financing activities	<u>(41,889)</u>	<u>-</u>	<u>-</u>	<u>(41,889)</u>
Cash flows from investing activities				
Purchase of investments	(182,442)	-	(403,272)	(585,714)
Investment income	<u>6,335</u>	<u>150</u>	<u>26,510</u>	<u>32,995</u>
Net cash (used) provided by investing activities	<u>(176,107)</u>	<u>150</u>	<u>(376,762)</u>	<u>(552,719)</u>
Net increase (decrease) in cash and cash equivalents	(51,095)	3,532	(348,698)	(396,261)
Cash and cash equivalents, beginning of year	<u>326,612</u>	<u>2,213</u>	<u>368,489</u>	<u>697,314</u>
Cash and cash equivalents, end of year	<u><u>\$ 275,517</u></u>	<u><u>\$ 5,745</u></u>	<u><u>\$ 19,791</u></u>	<u><u>\$ 301,053</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 127,173	\$ (88,471)	\$ 54,483	\$ 93,185
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	49,121	12,075	-	61,196
Changes in assets and liabilities:				
Accounts receivable	(464)	(524)	-	(988)
Due from other funds	2,984	11,210	-	14,194
Due from other governments	-	-	(1,487)	(1,487)
Prepaid items	(159)	374	(443)	(228)
Accounts payable	(7,917)	(3,128)	500	(10,545)
Due to other funds	(3,215)	(37,228)	(24,989)	(65,432)
Accrued liabilities	(622)	(7,710)	-	(8,332)
Net cash provided (used) by operating activities	<u><u>\$ 166,901</u></u>	<u><u>\$ (113,402)</u></u>	<u><u>28,064</u></u>	<u><u>\$ 81,563</u></u>

City of New Baltimore, Michigan
Downtown Development Authority
Statement of Net Assets and
Governmental Fund Balance Sheet
June 30, 2004

	Governmental Fund	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 33,860	\$ -	\$ 33,860
Capital assets:			
Depreciable, net	-	340,655	340,655
Total assets	<u>\$ 33,860</u>	<u>340,655</u>	<u>374,515</u>
Liabilities:			
Accrued liabilities	\$ -	5,627	5,627
Long-term liabilities:			
Due within one year	-	16,272	16,272
Due after one year	-	123,500	123,500
Total Liabilities	<u>-</u>	<u>145,399</u>	<u>145,399</u>
Fund Balance/Net Assets:			
Undesignated	<u>33,860</u>	<u>(33,860)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 33,860</u>		
Net Assets:			
Invested in capital assets, net of related debt		200,883	200,883
Unrestricted		28,233	28,233
Total net assets		<u>\$ 229,116</u>	<u>\$ 229,116</u>

City of New Baltimore, Michigan
Downtown Development Authority
Statement of Activities and
Governmental Fund Revenues, Expenditures, and
Changes in Fund Balance
For the Year Ended June 30, 2004

	Governmental Fund	Adjustments	Statement of Activities
Revenues			
Property taxes	\$ 54,524	\$ -	\$ 54,524
Other revenues	120	-	120
Investment earnings	247	-	247
	<hr/>	<hr/>	<hr/>
Total revenues	54,891	-	54,891
	<hr/>	<hr/>	<hr/>
Expenditures			
Principal	50,000	(50,000)	-
Interest	4,943	5,627	10,570
Depreciation	-	18,414	18,414
Other	1,650	-	1,650
	<hr/>	<hr/>	<hr/>
Total expenditures	56,593	(25,959)	30,634
	<hr/>	<hr/>	<hr/>
Revenues over (under) expenditures/ change in net assets	(1,702)	25,959	24,257
	<hr/>	<hr/>	<hr/>
Other financing sources (uses)			
Refunding bonds issued	189,772	-	189,772
Payment to refunded bond escrow agent	(189,772)	-	(189,772)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	-	-	-
	<hr/>	<hr/>	<hr/>
Net change in fund balance/net assets	(1,702)	25,959	24,257
	<hr/>	<hr/>	<hr/>
Beginning fund balance/net assets	35,562	169,297	204,859
	<hr/>	<hr/>	<hr/>
Ending fund balance/net assets	<u>\$ 33,860</u>	<u>\$ 195,256</u>	<u>\$ 229,116</u>

City of New Baltimore, Michigan
Economic Development Corporation
Statement of Net Assets and
Governmental Fund Balance Sheet
June 30, 2004

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Assets			
Cash and cash equivalents	\$ 15,200	\$ -	\$ 15,200
Total assets	<u>\$ 15,200</u>	<u>-</u>	<u>15,200</u>
Fund Balance/Net Assets:			
Undesignated	\$ 15,200	(15,200)	-
Total liabilities and fund balance	<u>\$ 15,200</u>		
Net Assets:			
Unrestricted		15,200	15,200
Total net assets		<u>\$ 15,200</u>	<u>\$ 15,200</u>

City of New Baltimore, Michigan
Economic Development Corporation
Statement of Activities and
Governmental Fund Revenues, Expenditures, and
Changes in Fund Balance
For the Year Ended June 30, 2004

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues			
Investment earnings	\$ 95	\$ -	\$ 95
Beginning fund balance/net assets	<u>15,105</u>	<u>-</u>	<u>15,105</u>
Ending fund balance/net assets	<u><u>\$ 15,200</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 15,200</u></u>

City of New Baltimore, Michigan
Local Development Financing Authority
Statement of Net Assets and
Governmental Fund Balance Sheet
June 30, 2004

	Governmental Fund	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 266,096	\$ -	\$ 266,096
Interest receivable	479	-	479
	<u>\$ 266,575</u>	<u>-</u>	<u>266,575</u>
Fund Balance/Net Assets:			
Undesignated	\$ 266,575	(266,575)	-
	<u>\$ 266,575</u>		
Net Assets:			
Unrestricted		266,575	266,575
		<u>\$ 266,575</u>	<u>\$ 266,575</u>

City of New Baltimore, Michigan
Local Development Financing Authority
Statement of Activities and
Governmental Fund Revenues, Expenditures, and
Changes in Fund Balance
For the Year Ended June 30, 2004

	Governmental Fund	Adjustments	Statement of Activities
Revenues			
Property taxes	\$ 113,405	\$ -	\$ 113,405
Investment earnings	2,337	-	2,337
Total revenues	115,742	-	115,742
Beginning fund balance/net assets	150,833	-	150,833
Ending fund balance/net assets	<u>\$ 266,575</u>	<u>\$ -</u>	<u>\$ 266,575</u>

City of New Baltimore, Michigan
Downtown Development Authority
Reconciliation of Governmental Fund Balance Sheet
to the Statement of Net Assets
June 30, 2004

Fund balance - Downtown Development Authority	\$ 33,860
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	460,345
Deduct: accumulated depreciation	(119,690)

Certain liabilities, such as notes payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: notes payable	(139,772)
Deduct: accrued interest	(5,627)

Net assets of component unit	<u><u>\$ 229,116</u></u>
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City of New Baltimore, Michigan
Downtown Development Authority
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balance
to the Statement of Activities
For the Year Ended June 30, 2004

Net change in fund balances - component unit	\$ (1,702)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: change in accrued interest on long-term debt	(5,627)
Deduct: depreciation expense	(18,414)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	<div style="border-top: 1px solid black; display: inline-block;">50,000</div>
--------------------------------------------------	-------------------------------------------------------------------------------

Change in net assets of governmental activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block;">\$ 24,257</div>
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

December 27, 2004

To the Honorable Mayor and Council
City of New Baltimore, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of *City of New Baltimore, Michigan* as of and for the year ended June 30, 2004, which collectively comprise the *City of New Baltimore, Michigan's* basic financial statements and have issued our report thereon dated December 27, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether *City of New Baltimore, Michigan's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered *City of New Baltimore, Michigan's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the *City of New Baltimore, Michigan* in a separate letter dated December 27, 2004.

This report is intended solely for the information and use of the audit committee, management, Mayor and City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large, prominent 'L' and 'J'.



REHMANN ROBSON

Certified Public Accountants

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December 27, 2004

To the Honorable Mayor and City Council
City of New Baltimore, Michigan

In planning and performing our audit of the financial statements of the *City of New Baltimore, Michigan*, for the year ended June 30, 2004, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters. This letter does not affect our report dated December 27, 2004, on the financial statements of the *City of New Baltimore, Michigan*.

The accompanying comments and recommendations are intended solely for the information and use of the Mayor and City Council, Audit Committee, Management, and others within the organization and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the City in implementing the recommendations.

We would like to thank the staff and management of the *City of New Baltimore, Michigan* for their assistance and cooperation in completing the audit.

5750 New King Street • Suite 100 • Troy, MI 48098 • 248.952.2676 • Fax 248.952.5464 • www.rehmann.com

Memorandum

1) CEMETERY PERPETUAL CARE FUND

During our audit we noted that over a period of years, funds have been deposited or accumulated in the Perpetual Care Fund that may be better accounted for in the Cemetery Operating Fund.

We believe that this condition results in additional complexity in determining the available and spendable resources for cemetery operations and increases the risk of accounting errors related to the restricted corpus of the contributions.

Recommendation

We would recommend that the City determine and set by resolution, the restricted corpus of the Cemetery Perpetual Care fund and transfer any surplus resources to the Cemetery Operating fund. In addition, we would recommend that during the year-end closing of the City's accounting records, that the restricted corpus be determined and that the residual, spendable amounts be transferred to the Cemetery Operating Fund.

2) SAFE SECURITY

While performing our audit, we noted that the safe was not always locked during the City's daily operations.

We believe that this condition creates unnecessary risk of loss to City assets including blank check that could be used to misappropriate cash.

Recommendation

We would recommend that the City establish a policy of keeping the safe locked at all times and that access to the safe be limited to select individuals.

3) DEPARTMENT OF PUBLIC SERVICES INTERNAL SERVICE FUND

We noted that the City maintains the Department of Public Service as an internal service fund in the City's accounting records. This fund in turn charges other funds for services performed by the Department of Public Service on a pre-determined rate schedule. We also noted that the fees charged to other funds over that past few years have not covered the total cost of the department's expenditures. This has resulted in transfers required from the General Fund to the Public Service Internal Service Fund to keep the fund solvent.

We believe that this structure creates several issues for the City as follows:

- 1) The State of Michigan Chart of Accounts defines the Department of Public Works as a fund activity as opposed to a fund itself. Typically it is accounted for as a department within the General Fund.

- 2) The purpose of establishing an internal service fund (as defined by GASB Statement 34 and reiterated by the Governmental Finance Officers Association) is to measure the full cost of providing goods or services for the purpose of fully recovering that cost through user charges including the cost of capital assets. If a government does not intend to recover the full cost of providing goods or services, the use of an internal service fund would not be appropriate.
- 3) The use of a predetermined rate in many cases does not reflect the true cost of the service. This may be of a specific issue when charging reimbursement type grants which may cause the City to either under request reimbursements to cover the true cost, or increase the risk of claims being disallowed by the granting agencies due to an inappropriate or unauthorized cost allocation method.
- 4) The structure increases the complexity of the City's accounting system by creating additional cash transactions between the General Fund and the Internal Service Fund for both vender payments, payroll and ultimately a transfer for the shortfall. In addition, with the City's adoption of GASB Statement No. 34, it creates an additional process to evaluate and record a "look back" adjustment for any fund increase or decrease to the funds net assets to be reported at the Governmental-Wide level.

We would recommend that in future years, the City consider establishing the Department of Public Service as a department within the General Fund. The City will benefit in several ways. First payroll charges to other funds for services provided by DPS can be charged directly through the payroll system. This will produce actual costs/charges to other funds based upon the actual hours and rates by the individual providing the service. Second, the City will reduce its risk of disallowed claims by granting agencies because the costs requested for reimbursement can ultimately be traced to an actual time card and pay rate by individual. Third, the City will reduce the complexity of its accounting function by reducing the need to transfer cash on vender payable and payroll runs along with the transfer from the general fund at year end.

4) BANK ACCOUNTS

During our procedures, we noted that the City has several bank accounts to segregate and maintain cash by individual fund.

Currently when the City receives cash, it accounts for the receipt in the appropriate fund associated City's accounting system. A deposit is prepared for each separate bank account in which money was received and physically deposited into the appropriate account.

All disbursements are made through the General Fund on a check run. Amounts that are for funds other than the General Fund are automatically accounted for in the City's accounting system. Cash then must be physically transferred from the separate fund accounts to the General Fund to settle the accounts.

Although we see how this process would have been of benefit in prior years, the current accounting system employed by the City provides a reasonable basis to leverage the pooling of the City's operating cash accounts.

Recommendation

We would recommend that the City consider using one pooled cash account for the City's operating cash instead of several (i.g. one for each fund) savings accounts. We believe that this will add more simplicity to the accounting and reconciliation of the City's cash, create the

opportunity to leverage better interest rates on deposited cash as the pooled amount would be much larger than several smaller amounts, and finally would reduce the costs associated with bank fees in maintaining several bank accounts.

5) PAYROLL REGISTERS

During our audit, we noted that the payroll clerk has the ability to establish employees, modify payroll rates and deductions as well as enter in payroll hours.

We believe that this condition increases the risk of errors and misappropriations from payroll transactions due primarily from the lack of segregation of duties. We understand that the City considers the costs associated with internal controls relative to the potential benefits through lower risk exposures and that a segregation of duties may not be practical for the City at this point.

Recommendation

We would recommend that the City consider in lieu of a segregation of the payroll function, an alternative check and balance. We would suggest that a copy of each departments payroll register be copied to the head of the department for their review. In addition we would recommend that an individual with no access to the payroll program, review and sign off on the payroll registers each pay period. We believe that these simple checks and balances will reduce the City's exposure to payroll risks while at no practical cost to the City.